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THE FINANCIAL CONDITION OF NEBRASKA'S FARM SECTOR

A July 1985 study issued by the Food and Agricultural Policy Research Institute of Iowa State University and the University of Missouri reports, "The financial condition of U.S. agriculture is in a state of crisis". For Nebraska agriculture, that is certainly not an overstatement.

The balance sheet of Nebraska's farming sector shows continued financial deterioration during the first six months of 1985. (See Table 1 on page 2.)

Asset value has dropped further, reflecting primarily real estate value declines of an estimated 8 percent since the first of the year and of about 30 percent since January 1, 1984. Nonreal estate asset values also have moved downward in recent months, however, as a result of lower prices on livestock and stored crop inventories as well as on farm equipment. At the same time, some sell-down of debt has occurred; estimated indebtedness still remains at $9.6 billion.

As a consequence, the equity level (or net worth) of the ag sector slipped about $1.5 billion since the first of the year to $18.1 billion. The level of equity, which is a key indicator of financial well-being over time, has dropped nearly 28 percent since January 1, 1984.

Considering a somewhat longer time perspective, today's owner equity in the state's farming sector is (in nominal terms) about half of the level of early 1981. More than $16 billion of owner equity has disappeared from the sector's financial statement in less than five years. Such deterioration carries sobering implications, not only for the rural economy, but for the state's economy as well. Those dollars lost represent dramatic and long term declines in economic activity--whether that activity is capital acquisition, consumption purchases, accumulated savings, or a tax base for public services.

Of course, if one also accounts for general inflation and the loss of purchasing power, the decline in the net worth is even more pronounced. In total, Nebraska's agricultural assets today are worth just $.42 for every $1.00 of their purchasing power at the beginning of this decade, a 58 percent decline.

The associated financial ratios also show the continuing deterioration. Equity as a percent of assets has declined from about 80 percent in 1981 to nearly 65 percent for the sector. Correspondingly, the average debt-to-asset ratio has jumped from 20 percent to nearly 35 percent. It is believed generally that debt-servicing problems tend to arise for agricultural producers when their debt-to-asset ratios exceed 40 percent.

Obviously, the range of indebtedness around this average also is a critical factor. Here in Nebraska approximately one-third of the farmers have operated historically with no debt. Likewise, there have tended to be relatively modest levels of debt held by nonfarmer asset owners. As a result, for the state's farmers who do operate with debt, the average level is much more severe. Estimates for this group suggest that the average debt-to-asset ratio now exceeds 50 percent.

The individual financial situations within the indebted farmer group are quite varied. Some operate with modest amounts of debt, far below the average for the group; thus, one cannot conclude that all indebted farmers face serious financial problems. Unfortunately, there are also highly leveraged operators whose financial conditions are even more precarious than the overall average. For them, inadequate debt-servicing capacity in combination with depreciating asset values points to an acceleration toward insolvency (total debt exceeding total asset value). Operating losses will devour the remaining net worth of many of these operators within a few short years.

A mid-year 1985 distribution pattern of indebtedness among Nebraska's farmers has been estimated. (See Table 2 on page 3.) Nearly 30 percent of the state's farmers (about 17,500 of the state's 60,000 farmers) are running debt-free operations. Although obviously not experiencing financial stress in terms of debt-servicing and insolvency, nevertheless, this group also has been affected. Depreciating asset values have seriously eroded their net worth positions which in many cases represent savings for retirement and other key needs.

Another 8 percent of the operators (about 4,880) operate today with only small amounts of indebtedness, less than 10 percent of their owned asset value. They account for an insignificant amount of farm sector debt. In many respects, this group is probably quite similar to the debt-free operators, as their major financial concern is not debt-servicing, but asset value decline.

In mid-year 1985, one of every four farm operators (14,400) is estimated to be operating with debt-to-asset ratios of 10 to 40 percent. For those toward the top of this range, the relative debt load probably has become a cause for concern. Adequate debt-servicing capacity, however, generally still will prevail.

In the face of short earnings and falling asset values, increasing numbers of Nebraska farmers are now operating in the danger zone of indebtedness (debt-to-asset ratios of 40 percent or more).

(continued on page 2)

Table 1
Abbreviated Balance Sheet of Nebraska's Farming Sector
(Including farm households)
January 1, 1980-1985[a]

Item	1980	1981	1982	1983	1984	Preliminary 1985 January 1	Preliminary 1985 July 1
				Billions of Dollars			
ASSETS							
Real Estate	28.6	31.5	29.8	26.8	23.6	17.9	16.5
Nonreal Estate	11.7	12.0	12.2	13.1	12.2	11.8	11.2
TOTAL	40.3	43.5	42.0	39.9	35.8	29.7	27.7
CLAIMS							
Real Estate[b]	3.2	3.6	4.0	4.2	4.3	4.2	4.0
Nonreal Estate	4.9	5.1	5.6	7.0	6.4	5.9	5.6
TOTAL	8.1	8.7	9.6	11.2	10.7	10.1	9.6
EQUITY[c]	32.2	34.7	32.4	28.7	25.1	19.6	18.1
				Ratio Percentage			
RATIO[d]							
Equity/Assets	79.9	79.9	77.2	72.0	70.1	66.0	65.3
Debt/Equity	25.1	25.2	29.6	38.9	42.6	51.3	53.0
Debt/Assets	20.1	20.1	22.8	28.0	30.0	34.0	34.7

[a]Primary source: *Economic Indicators of the Farming Sector State Income and Balance Sheet Statistics Series*, Economic Research Service, U.S. Department of Agriculture

[b]Real estate value data for 1985 based upon changes derived from the 1985 Nebraska Farm Real Estate Market Survey and other sources. Adjustments to other asset and claim items for 1985 based upon projected changes for 1985 U.S. Balance Sheet by Economic Research Service, U.S. Department of Agriculture

[c]Total assets minus total claims. May not compute exactly due to rounding of figures for assets and claims

[d]May not compute exactly due to rounding of figures for assets and claims

(continued from page 1)

More than one out of five farmers (13,000) now are attempting to service debt loads which are 40 to 70 percent of owned asset values. Given the rates of return to agricultural assets (long run average of 3 to 4 percent) and current interest rate levels on outstanding debt, there is no question that many of these operators face serious debt-servicing problems. Moreover, it is estimated that another 17 percent of the state's operators now have debt-to-asset ratios in excess of 70 percent. Farmers in this category face a most difficult challenge correcting their financial problems. For these highly leveraged operators, financial insolvency and termination of the operation are the most likely outcomes unless major adjustments to their financial structure can be made.

In the aggregate, the problem of financial stress is compounded by the extreme concentration of debt volume among the more heavily leveraged farmers. More than three-fourths of the total agricultural debt load (76 percent) is owed by borrowers with debt-to-asset ratios in excess of 40 percent. In short, debt-servicing capacity, given current income conditions and outlook, is highly questionable for a major share of this state's farm debt obligation.

A NATIONWIDE PERSPECTIVE

Financial stress in production agriculture is not unique to Nebraska or this region. Financial deterioration in the form of limited cash flows, debt-servicing problems, and depreciating asset values are occurring throughout most of the United States agricultural sector. At this point in time, however, the degree of severity appears to be most acute in the central part of the nation. (See Table 3 on page 3.)

Nationally in mid-year 1985 about 30 percent of the operators had debt-to-asset ratios over 40 percent and held 63 percent of the outstanding debt. The Central Region, which comprises the Cornbelt States (Ohio, Indiana, Illinois, and Missouri), the Lake States (Michigan, Wisconsin, and Minnesota), as well as the Northern Plains (North Dakota, South Dakota, Nebraska, and Kansas), had clearly the most critical stress; it had the highest concentration of operators in debt/asset classes over 40 percent. Moreover, in the Central Region 75 percent of the debt was estimated to be concentrated in these classes.

There are, no doubt, a number of factors explaining the greater financial severity for production agriculture in the Central

(continued on page 3)

Table 2
Estimated Percentage Distribution of Nebraska Farm Operators, Farm Debt, and Farm Assets by Relative Debt Levels and Severity of Financial Stress
July 1, 1985[1]

Ratio Debt-to-Assets (Percent)	Degree of Current Financial Stress[2]	Percentage Distribution of Farm Operators	Farm Sector Debt	Farm Sector Debt[3]
0%	None	29	0	14
1-10%	None	8	2	9
10-40%	Some stress for some operators	24	10	12
40-70%	Moderate to severe stress for most	22	39	23
70% and over	Severe	17	37	15

[1]Based on preliminary mid-year 1985 balance sheet statistics for the Nebraska farming sector

[2]A normative evaluation, considering such factors as current debt service capacity, credit collateral, degree of financial solvency, etc

[3]Percentage distributions of debt and assets will not add to 100 percent since a portion of each is held by nonfarmers

(continued from page 2)
Region. It is the major grain exporting region of the country and has probably experienced more income cutback as U.S. exports subsided in recent years. Also, the magnitude of the 1970s land boom was greatest in many states in the Central Region, and therefore these states have had the largest downward adjustments during this decade. These factors in combination with weather problems, excessive debt buildup, and others have created a situation of financial instability which is particularly acute in the midsection of the country.

LOOKING AHEAD

The key question, of course, is "What lies ahead?" Considerable uncertainty clouds the economic horizon and makes projections difficult. Evidence presented here, however, would certainly suggest that the current financial situation facing the Nebraska farm sector is pervasive and will not quickly disappear. The situation reflects years of developing and could easily take well into the next decade to run its course.

Farm income expectations hinge on ag legislation. If there is policy intervention to help the sector adjust, the direct transition costs to farmers may be lessened. Minimal intervention, however, could wreak havoc with asset markets and financial institutions. Recent estimates suggest that 10 to 15 percent of the agricultural assets may need to be liquidated to achieve financial stability (Jolly and Doye). In the central United States, this liquidation volume could range as high as 15 to 25 percent. Ag land markets normally transfer 2 to 4 percent of the land annually, so it is questionable whether the land market could function with this turnover in a short time period. Asset values could plunge further and the incidence of farm foreclosure increase significantly.

If inflation remains low, owners of farm assets may experience continued stress. One cannot ignore, however, the federal government's debt situation. The policy direction chosen may monetize federal debt, thus creating accelerated rates of inflation. Owners of tangible assets, such as real estate, benefit in this situation; assets can appreciate in value rapidly. This could mean a dramatic turnaround for the asset markets of the farm sector, and, in the short run, could rescue many from financial insolvency.

The restructuring of production agriculture into a system of reduced debt dependency is inevitable. The agricultural sector will enter the 1990s in a far more lean condition than it entered the 1980s.

Table 3
Distribution of Operators, Assets, and Debts
By Debt-to-Asset Ratio 1985 Situation

Region	Debt-to-Asset Ratio (percent) 0-10	10-40	40-70	70+	All
EAST					
Operators	54.1	27.2	13.4	5.3	7.15
Assets	51.4	31.7	12.8	4.1	5.14
Debts	6.6	39.6	31.9	21.9	4.62
SOUTH					
Operators	46.7	30.5	13.6	9.2	40.41
Assets	47.7	34.2	14.2	3.9	33.44
Debts	2.8	40.4	38.2	18.6	27.86
CENTRAL					
Operators	33.2	27.1	21.0	18.7	40.95
Assets	30.8	31.7	24.9	12.7	41.91
Debts	1.8	23.2	39.9	35.1	47.49
WEST					
Operators	38.3	36.3	16.1	9.3	11.49
Assets	27.3	55.3	13.2	4.3	19.51
Debts	3.8	51.7	28.3	16.2	20.02
UNITED STATES					
Operators	40.7	29.5	16.9	12.8	100.00
Assets	36.8	37.1	18.5	7.7	100.00
Debts	2.7	34.5	35.7	26.1	100.00

Source: Jolly, R.W. and D.G. Doye, "Farm Income and the Financial Condition of United States Agriculture," FAPRI Staff Report No. 8-85, July 1985

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Review and Outlook

The nonagriculture sector of the Nebraska economy improved slightly during July 1985. On a month-to-month basis, nonagriculture output increased 0.3 percent according to the Bureau of Business Research' physical volume index. Lackluster performances by the construction and manufacturing industries were responsible for the small jump in the July 1985 physical volume index. Construction activity was down 0.3 percent, and manufacturing output declined 3.8 percent. On a positive note, gains in output occurred in the distributive component (+0.5 percent and government sector (+5.7 percent).

The July 1985 index of prices received by Nebraska farmers for all agriculture products registered no improvement. On a monthly basis, the price index declined 3.0 percent; it has plummeted 15.0 percent since July 1984. Nationally, the index of agriculture prices received was down 0.9 percent in July 1985, with a cumulative decline of 12.7 percent since July of last year. Cash receipts for agriculture commodities for Nebraska and the United States were unavailable.

Nebraska total dollar volume retail sales declined 1.7 percent from July 1984 to July 1985. When adjusted for price changes, retail sales decreased 3.5 percent from July 1984 levels. Motor vehicle sales fared better, declining only 3.2 percent on a dollar volume basis (3.6 percent price adjusted); dollar volume non-vehicle sales fell 1.5 percent (3.5 percent price adjusted).

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

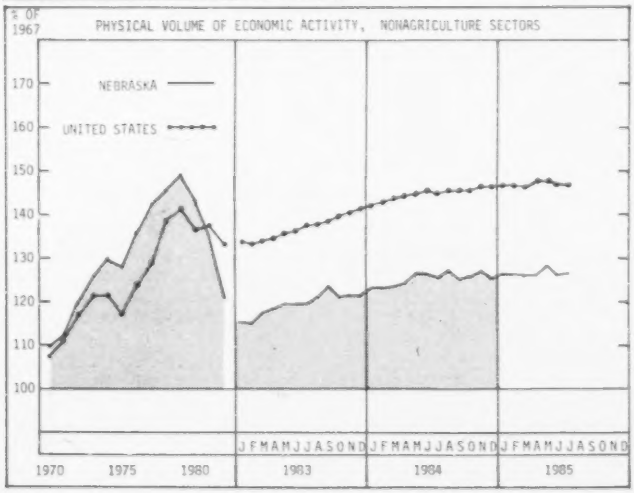
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

July 1985	Current Month as Percent of Same Month Previous Year		1985 to Date as percent of 1984 to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	NA	NA	NA	NA
Agricultural	NA	NA	NA	NA
Nonagricultural	104.1	104.9	105.2	105.8
Construction	94.3	108.3	95.2	108.5
Manufacturing	95.7	99.0	100.9	100.9
Distributive	105.6	106.4	105.5	107.1
Government	113.1	106.8	113.8	106.8
Physical Volume	NA	NA	NA	NA
Agricultural	NA	NA	NA	NA
Nonagricultural	100.7	101.7	101.7	102.4
Construction	91.4	104.9	91.9	104.7
Manufacturing	96.5	98.9	101.1	100.5
Distributive	102.0	102.8	101.8	103.3
Government	104.7	101.7	104.9	101.6

2. CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	NA	NA
Agricultural	NA	NA
Nonagricultural	379.6	448.4
Construction	292.3	453.0
Manufacturing	362.7	320.8
Distributive	387.0	516.6
Government	425.7	458.6
Physical Volume	NA	NA
Agricultural	NA	NA
Nonagricultural	126.6	147.1
Construction	81.6	126.5
Manufacturing	146.4	125.7
Distributive	119.9	160.0
Government	152.7	151.0

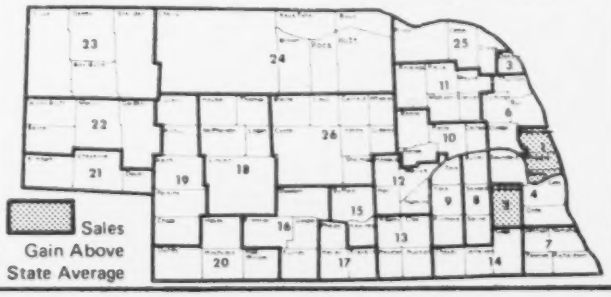


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number[1] and City	City Sales[2] July 1985 as percent of July 1984	Sales in Region[2] July 1985 as percent of July 1984	Sales in Region[2] 1985 to Date as percent of 1984 to Date
The State	98.5	98.3	100.0
1 Omaha	105.7	105.3	106.1
Bellevue	118.9		
Blair	108.8		
2 Lincoln	102.0	101.3	103.8
3 So. Sioux City	103.7	99.4	100.0
4 Nebraska City	100.5	94.2	94.2
6 Fremont	106.3	97.3	96.0
West Point	94.3		
7 Falls City	100.7	95.4	94.3
8 Seward	94.4	99.6	91.8
9 York	103.7	92.9	93.6
10 Columbus	95.4	90.3	92.1
11 Norfolk	99.2	93.6	95.4
Wayne	89.2		
12 Grand Island	94.7	92.6	95.8
13 Hastings	100.6	97.2	94.3
14 Beatrice	97.5	95.6	93.3
Fairbury	93.1		
15 Kearney	97.0	95.0	93.5
16 Lexington	98.7	88.8	91.3
17 Holdrege	80.3	85.5	89.0
18 North Platte	88.7	89.0	92.4
19 Ogallala	94.0	91.3	90.8
20 McCook	95.1	95.2	94.6
21 Sidney	102.7	93.6	98.5
Kimball	93.9		
22 Scottsbluff/Gering	101.4	98.5	97.8
23 Alliance	102.3	100.4	98.3
Chadron	96.7		
24 O'Neill	82.2	85.7	91.6
25 Hartington	94.3	91.2	91.3
26 Broken Bow	95.4	91.3	91.8

[1]See region map below.
[2]Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1985 YEAR TO DATE AS PERCENT OF 1984 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



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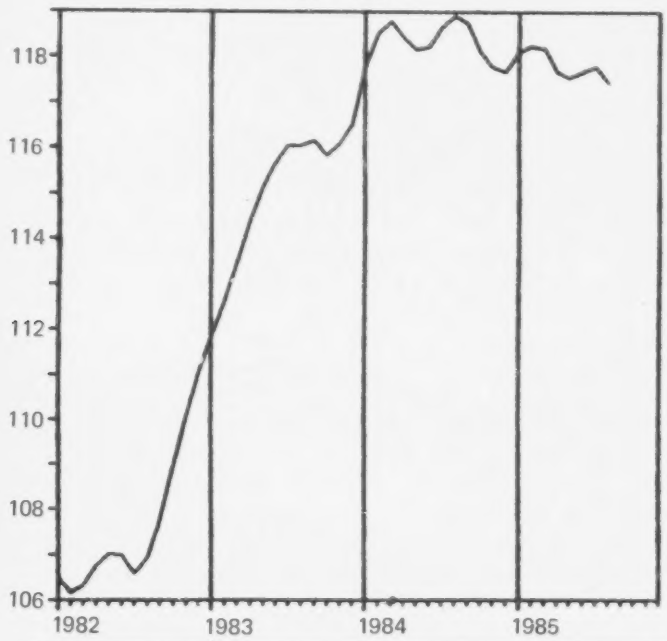
Nine of twenty-six cities measured by the Bureau's city business index showed positive changes in business activity during July 1985 as compared to July of the previous year. During June 1985, only five cities registered on the positive end of the business index. Sizable gains in building activity maintain Chadron's lead over other cities (+13.4 percent). Bellevue, Blair, Fremont, and Omaha were other leaders. Both Lincoln and Omaha registered positive changes on the July 1985 business index after being on the negative side of the scale during June.

After posting two consecutive gains totaling 0.2 percent in June and July 1985, the Nebraska composite index of leading economic indicators dipped 0.3 percent in August. On a seasonally adjusted basis, declines in construction activity and prices received for Nebraska farm products contributed to the downturn in the leading index. Initial claims for unemployment insurance fell in August, but not enough to influence an upturn in the leading index. (Declines in initial claims contribute to an increase in the composite index.) Preliminary statistics indicate the strong possibility of another downturn in the composite leading index in September.

CHARLES L. BARE

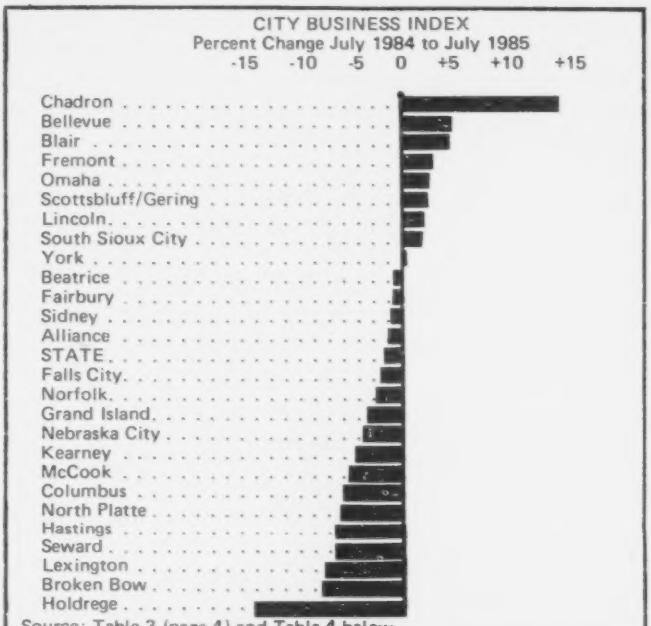
Nebraska Composite Index of Leading Economic Indicators
1977=100



5. PRICE INDEXES

July 1985	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	322.8	103.6	103.7
Commodity component	286.9	102.1	102.2
Wholesale Prices	309.0	99.1	99.6
Agricultural Prices			
United States	227.0	87.3	90.6
Nebraska	216.0	85.0	90.3

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.



Source: Table 3 (page 4) and Table 4 below.

4. July 1985 CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	99.6	96.0	97.4
Alliance	98.4	81.7	102.3
Beatrice	99.0	144.6	101.4
Bellevue	100.3	57.9	95.8
Blair	100.4	131.6	103.7*
Broken Bow	100.3	29.2	114.3
Chadron	101.5	2,290.9	94.0
Columbus	95.4	75.7	93.0
Fairbury	99.3	206.9	104.6
Falls City	100.3	72.0	101.6
Fremont	100.0	117.4	100.7*
Grand Island	98.8	84.8	102.3
Hastings	99.3	29.4	94.3
Holdrege	100.4	32.0	99.7
Kearney	99.8	56.3	98.5
Lexington	97.7	30.7	103.6
Lincoln	101.0	115.8	98.4
McCook	99.1	60.3	93.3
Nebraska City	99.2	45.7	104.5
Norfolk	98.8	78.1	96.4
North Platte	99.9	90.4	100.2
Omaha	100.3	105.4	94.4
Scottsbluff/Gering	99.9	154.7	97.4
Seward	99.8	48.4	109.7
Sidney	99.1	81.6	115.1
So. Sioux City	99.2	113.2	107.6
York	99.0	99.2	107.2

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

BEA ECONOMIC PROJECTIONS

From 1983 to 2000, real personal income in Nebraska is projected to increase 2.4 percent per year, according to the Bureau of Economic Analysis of the United States Department of Commerce. The projection for the state is 0.2 percent below the national average and slightly above that of the Plains region. Nebraska's projected gain in real income ranks 32nd nationally and 3rd among the Plains states behind Minnesota (+2.7 percent) and Kansas (+2.5 percent).

Total Personal Income--Plains Region
Historical Data and Projections
Millions of 1972 Dollars

	1983	1990	2000
Iowa	14,546	18,063	21,158
Kansas	13,741	17,204	20,753
Minnesota	23,090	29,183	36,245
Missouri	25,664	31,457	37,342
Nebraska	8,356	10,333	12,561
North Dakota	3,716	4,526	5,527
South Dakota	3,228	3,971	4,821

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Per capita personal income, a measure of economic well-being, is expected to grow 1.9 percent annually from 1983 to 2000 in the state. State per capita income in real dollars is forecasted to swell from $5,236 in 1983 to $7,244 by the year 2000. Per capita income for the Plains region is projected to be $7,262 by 2000, 98.5 percent of the national average. The only Plains states projected to exceed the national average per capita income over the projection period are Kansas and Minnesota.

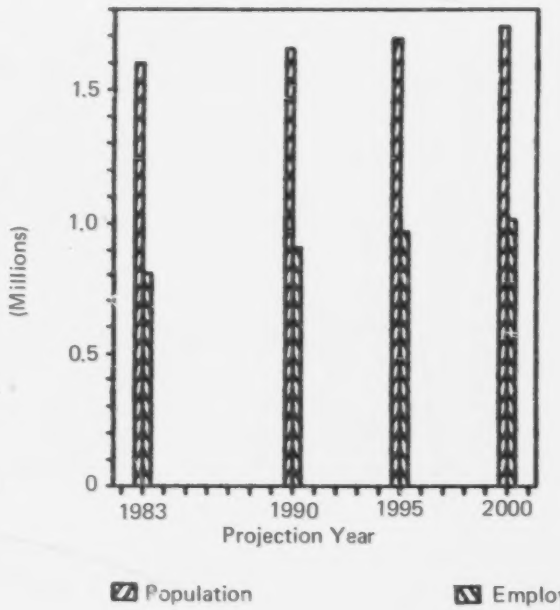
Mining and services will be the fastest growing sectors of the Nebraska economy from 1983 to 2000, with projected annual growth rates of 3.9 percent and 3.8 percent; construction and manufacturing follow, with projected earnings growth rates of 3.6 percent. Lower growth rates are forecasted for trade (+2.4 percent) and government (+1.7 percent).

Employment in Nebraska is projected to rise from 807,400 in 1983 to 1,014,200 by the year 2000. These employment stats represent an overall gain of 25.6 percent or an increase of 1.4 percent per year. Nebraska's population is projected to jump 8.6 percent from 1983 to 2000. Population is expected to swell by 138,000 persons, an increase of 0.5 percent annually.

BEA projections assume no major policy changes and are based on past economic relationships. Population projections and projections of personal income and employment for 57 industries target the years 1990, 1995, 2000, 2005, 2015, and 2035. Projected data for the United States, the fifty individual states, and the District of Columbia are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

CHARLES L. BARE

BEA Projections--Nebraska
Population and Employment



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CHANGES IN NEBRASKA'S EMPLOYMENT, 1967-1984

Employment in Nebraska has increased steadily and virtually without interruption since 1967. Total employment, which was 623,000 in 1967, has grown to 788,000 in 1984.

This article reviews employment changes in Nebraska over the interval 1967-1984. These dates were selected because they represent the longest interval for which reliable data are available.

Employment changes by sector (i.e., manufacturing, trade, et cetera) will be analyzed and compared with national trends. Data for Nebraska were compiled from reports issued by the Nebraska Department of Labor, while data for the United States were compiled by the United States Department of Labor, Bureau of Labor Statistics. Recent Nebraska data are more reliable than data of 10 to 15 years past. Comparability is maintained by benchmarking employment data when an economic census is taken. These economic censuses are conducted every five years in years ending in 2 and 7. The most recent economic census was conducted in 1982. Benchmarking is necessary to classify new industries, but perfect comparability is not always possible. Strict comparability with national data is not possible because Nebraska data contain a miscellaneous category.

OVERVIEW

Total employment has increased each year with the exceptions of the 1974-1975 recession and the 1980-1982 recession. Total employment was up 26.0 percent over the 17 year interval; nonagricultural employment rose 40.0 percent. Nebraska employment gains in percentage terms were nearly equal to national increases over the same interval. Data in Table 1 summarize Nebraska and national employment levels by year 1967-1984.

The shift in employment composition toward service employment is visible over the period 1967-1984. Employment in the service sector of Nebraska's economy was estimated at 135,000 in 1984, up nearly 83.0 percent from 1967's 74,000. No other component of the Nebraska economy shows such a dramatic increase. Service employment has gained yearly during the period 1967-1984, with the exception of 1976 when there was no growth in service employment.

Services, as noted above, led all industries with an 82.9 percent increase. Major service industries include hotels and lodging places, personal services, business services, automobile repair services, other repair services, health services, amusement and recreation services, legal services, and selected educational services.

The finance, insurance, and real estate (FIRE) industry ranked second in employment gains with a jump of nearly 65.0 percent. The trade sector, wholesale and retail, followed. The government sector ranked fourth, followed by transportation, communication, and utilities.

Before reaching any conclusions regarding the Nebraska government sector, it is important to remember that electric utility employees are government employees in the state, since the electricity industry in Nebraska is publicly owned. Nebraska's government employment increase was nearly 43.0 percent over the interval, compared with 40.0 percent nationally. Government employment, excluding utility workers, is probably below average in the state of Nebraska.

Manufacturing employment swelled 11.0 percent over the period 1967-1984. Nebraska did better than the nation in terms of employment change over the 17 year interval. Construction employment was about the same in 1984 as it was in 1967, up a scant 1.6 percent. This contrasts markedly with the national gain of more than one-third in construction employment.

Finally, mining employment in Nebraska declined 2.9 percent over the interval 1967-1984. Mining employment is small in the state. Nationwide, mining employment rose a substantial 58.0 percent over the period 1967-1984.

Miscellaneous employment in Nebraska includes employees that cannot be classified or do not fit conveniently any of the above classes. This category increased 30.1 percent over the study interval. Keep in mind that employees in this category are from all sectors--their absence distorts Nebraska data and makes strict comparisons with national data impossible.

DISTRIBUTION OF EMPLOYMENT

Nebraska has proportionally more employees in agriculture, finance, insurance, and real estate, and transporation, communication, and utilities than are found nationwide. Caution is advised in interpreting these statistics because of the large group of employees in the miscellaneous category in Nebraska not present in the national data.

The larger number of employees in agriculture is easy to understand since Nebraska is a major commodity-producing state. Finance, insurance, and real estate employees constitute 7.0 percent of total employment in Nebraska compared with 5.8 percent nationwide. This likely reflects the fact that the insurance indus-

(continued on page 6)

TABLE 1
Nebraska Employment By Sector
1967-1984
(in thousands)

Year	Agriculture	Miscellaneous	Mining	Construction	Manufacturing	TCU	Trade	FIRE	Services	Government	Total	Total Non Ag
1967	114	64	2	24	80	36	110	26	74	92	623	509
1968	110	63	2	24	83	37	114	27	76	94	629	519
1969	108	63	2	25	87	37	117	28	79	97	643	535
1970	90	69	2	25	85	37	121	29	83	101	641	551
1971	91	70	2	24	83	37	122	30	86	105	650	559
1972	89	71	2	28	86	38	131	30	92	109	675	586
1973	89	71	2	29	90	39	139	32	93	117	701	612
1974	88	72	2	30	93	40	144	34	99	121	723	635
1975	83	72	2	28	85	39	145	34	100	125	713	630
1976	82	72	2	30	88	41	151	36	100	125	726	644
1977	80	78	2	32	91	42	156	38	104	129	751	671
1978	74	80	2	33	94	44	159	39	109	130	765	691
1979	73	79	2	32	99	48	164	41	114	131	783	710
1980	72	76	2	29	96	48	164	42	116	131	776	704
1981	73	76	2	26	95	47	162	41	120	130	773	700
1982	75	81	2	24	88	45	159	41	123	129	766	691
1983	76	83	2	23	85	43	158	42	128	130	770	694
1984	76	84	2	24	89	43	161	43	135	132	788	712
% Change 1967 to 1984	-33.15	30.11	-2.90	1.59	11.05	19.44	45.94	64.79	82.88	42.93	26.56	39.97
					Percentage Distribution							
1967	18.3	10.3	0.3	3.8	12.9	5.8	17.7	4.2	11.9	14.8	100.0	81.7
1968	17.5	10.0	0.3	3.8	13.2	5.9	18.1	4.3	12.1	14.9	100.0	82.5
1969	16.8	9.8	0.3	3.9	13.5	5.8	18.2	4.3	12.3	15.1	100.0	83.2
1970	14.0	10.7	0.2	3.8	13.3	5.8	18.9	4.5	12.9	15.8	100.0	86.0
1971	14.0	10.8	0.3	3.7	12.8	5.7	18.8	4.6	13.2	16.2	100.0	86.0
1972	13.1	10.6	0.2	4.1	12.8	5.6	19.4	4.5	13.6	16.1	100.0	86.9
1973	12.7	10.1	0.2	4.2	12.9	5.6	19.8	4.6	13.3	16.7	100.0	87.3
1974	12.2	10.0	0.2	4.1	12.9	5.5	19.9	4.6	13.6	16.8	100.0	87.8
1975	11.7	10.1	0.2	3.9	12.0	5.5	20.3	4.8	14.0	17.5	100.0	88.3
1976	11.3	9.9	0.2	4.2	12.1	5.6	20.8	4.9	13.8	17.2	100.0	88.7
1977	10.6	10.3	0.2	4.3	12.1	5.6	20.8	5.2	13.9	17.2	100.0	89.4
1978	9.7	10.5	0.2	4.3	12.3	5.8	20.8	5.2	14.2	17.0	100.0	90.3
1979	9.3	10.1	0.2	4.1	12.7	6.1	21.0	5.2	14.6	16.7	100.0	90.7
1980	9.3	9.8	0.2	3.7	12.4	6.2	21.1	5.4	15.0	16.9	100.0	90.7
1981	9.5	9.9	0.2	3.4	12.3	6.1	20.9	5.3	15.5	16.8	100.0	90.5
1982	9.8	10.6	0.3	3.1	11.5	5.9	20.7	5.4	16.0	16.9	100.0	90.2
1983	9.8	10.8	0.2	3.0	11.0	5.6	20.5	5.4	16.6	16.9	100.0	90.2
1984	9.7	10.6	0.2	3.0	11.3	5.5	20.4	5.5	17.2	16.7	100.0	90.3

Source: compilation of reports from the Nebraska Department of Labor.

TCU = transportation, communication, utilities
FIRE = finance, insurance, and real estate

TABLE 1 (continued)
United States Employment By Sector
1967-1984
(in thousands)

Year	Agriculture	Mining	Construction	Manufacturing	TCU	Trade	FIRE	Services	Government	Total Non Ag	Total
1967	3,844	613	3,248	19,447	4,268	13,606	3,185	10,045	11,391	65,803	69,647
1968	3,817	606	3,350	19,781	4,318	14,099	3,337	10,567	11,839	67,897	71,714
1969	3,606	619	3,575	20,167	4,442	14,705	3,512	11,169	12,195	70,384	73,990
1970	3,463	623	3,588	19,367	4,515	15,040	3,645	11,548	12,554	70,880	74,343
1971	3,394	609	3,704	18,623	4,476	15,352	3,772	11,797	12,881	71,214	74,608
1972	3,484	628	3,889	19,151	4,541	15,949	3,908	12,276	13,334	73,675	77,159
1973	3,470	642	4,097	20,154	4,656	16,606	4,046	12,857	13,732	76,790	80,260
1974	3,515	697	4,020	20,077	4,725	16,987	4,148	13,441	14,170	78,265	81,780
1975	3,408	752	3,525	18,323	4,542	17,060	4,165	13,892	14,686	76,945	80,353
1976	3,331	779	3,576	18,997	4,582	17,755	4,271	14,551	14,871	79,382	82,713
1977	3,283	813	3,851	19,682	4,713	18,516	4,467	15,303	15,127	82,471	85,754
1978	3,387	851	4,229	20,505	4,923	19,542	4,724	16,252	15,672	86,697	90,084
1979	3,347	958	4,463	21,040	5,136	20,193	4,975	17,112	15,947	89,823	93,170
1980	3,364	1,027	4,346	20,285	5,146	20,310	5,160	17,890	16,241	90,406	93,770
1981	3,368	1,139	4,188	20,170	5,165	20,547	5,298	18,619	16,031	91,156	94,524
1982	3,401	1,143	3,911	18,853	5,081	20,402	5,340	19,064	15,803	89,596	92,997
1983	3,383	952	3,948	18,434	4,954	20,881	5,465	19,694	15,869	90,196	93,579
1984	3,321	974	4,345	19,412	5,171	22,134	5,682	20,761	15,984	94,461	97,782
% Change 1967 to 1984	-13.61	58.89	33.77	-0.18	21.16	62.68	78.40	106.68	40.32	43.55	29.95
					Percentage Distribution						
1967	5.5	0.9	4.7	27.9	6.1	19.5	4.6	14.4	16.4	94.5	100.0
1968	5.3	0.8	4.7	27.6	6.0	19.7	4.7	14.7	16.5	94.7	100.0
1969	4.9	0.8	4.8	27.3	6.0	19.9	4.7	15.1	16.5	95.1	100.0
1970	4.7	0.8	4.8	26.1	6.1	20.2	4.9	15.5	16.9	95.3	100.0
1971	4.5	0.8	5.0	25.0	6.0	20.6	5.1	15.8	17.3	95.5	100.0
1972	4.5	0.8	5.0	24.8	5.9	20.7	5.1	15.9	17.3	95.5	100.0
1973	4.3	0.8	5.1	25.1	5.8	20.7	5.0	16.0	17.1	95.7	100.0
1974	4.3	0.9	4.9	24.6	5.8	20.8	5.1	16.4	17.3	95.7	100.0
1975	4.2	0.9	4.4	22.8	5.7	21.2	5.2	17.3	18.3	95.8	100.0
1976	4.0	0.9	4.3	23.0	5.5	21.5	5.2	17.6	18.0	96.0	100.0
1977	3.8	0.9	4.5	23.0	5.5	21.6	5.2	17.8	17.6	96.2	100.0
1978	3.8	0.9	4.7	22.8	5.5	21.7	5.2	18.0	17.4	96.2	100.0
1979	3.6	1.0	4.8	22.6	5.5	21.7	5.3	18.4	17.1	96.4	100.0
1980	3.6	1.1	4.6	21.6	5.5	21.7	5.5	19.1	17.3	96.4	100.0
1981	3.6	1.2	4.4	21.3	5.5	21.7	5.6	19.7	17.0	96.4	100.0
1982	3.7	1.2	4.2	20.3	5.5	21.9	5.7	20.5	17.0	96.3	100.0
1983	3.6	1.0	4.2	19.7	5.3	22.3	5.8	21.0	17.0	96.4	100.0
1984	3.4	1.0	4.4	19.9	5.3	22.6	5.8	21.1	16.3	96.6	100.0

Source: U.S. Department of Labor, *Employment and Earnings* and U.S. Department of Commerce, *Business Statistics*, 1982

TCU = transportation, communication, utilities
FIRE = finance, insurance, and real estate

Review and Outlook

Improved performances by the distributive and manufacturing components of Nebraska's economy were largely responsible for the August 1985 increase in nonagriculture output. The physical volume indicator of the Bureau of Business Research indicates a July-to-August increase of 0.6 percent in nonagriculture activity, the second consecutive monthly increase in the nonfarm component of the Bureau's index.

After registering a sharp decline in July 1985 output, manufacturing activity increased 1.4 percent in August. The distributive component continued to improve, with a 0.7 gain in output. Weak economic performance in the construction sector in July was repeated in August, with a 3.9 percent drop in monthly output. Nebraska's August decline in building activity contrasts with a 1.4 percent increase in construction output nationwide. State government activity, up sharply during July, fell 0.2 percent during August. With the exception of construction, July-to-August percentage changes in state nonfarm output paralleled those of the nation.

August 1985 index of prices received by Nebraska farmers for all agriculture products declined 4.5 percent. Since August 1984, the Nebraska index of farm prices has contracted 17.2 percent. Nationally, the situation is only slightly better, with the August index of agriculture prices received decreasing 4.3 percent. Compared to the August 1984 index number, U.S. farm prices have

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes–see Table 5, page 5.

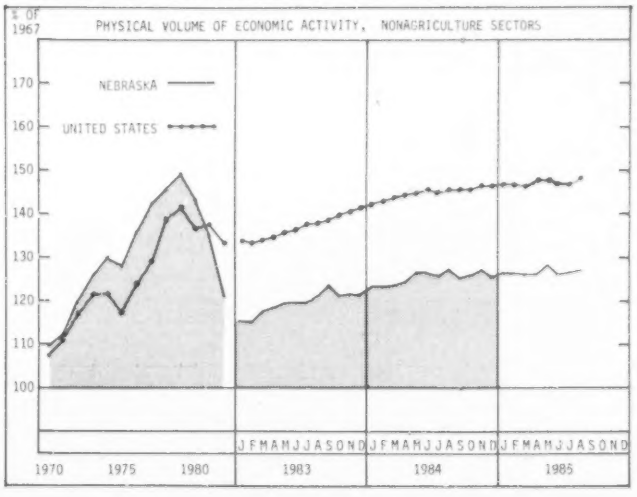
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

August 1985	Current Month as Percent of Same Month Previous Year		1985 to date as percent of 1984 to date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	103.3	105.7	105.0	105.8
Construction	91.4	108.2	94.7	108.4
Manufacturing	95.7	98.6	100.2	100.6
Distributive	105.0	107.9	105.4	107.3
Government	110.8	106.7	113.4	106.8
Physical Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	100.1	102.6	101.5	102.5
Construction	89.1	105.4	91.5	104.8
Manufacturing	96.5	98.5	100.5	100.2
Distributive	101.5	104.4	101.7	103.5
Government	103.1	102.1	104.7	101.7

2. CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	na	na
Agricultural	na	na
Nonagricultural	381.9	453.1
Construction	280.2	458.0
Manufacturing	366.0	323.0
Distributive	390.5	523.1
Government	426.7	461.2
Physical Volume	na	na
Agricultural	na	na
Nonagricultural	127.3	148.6
Construction	78.5	128.3
Manufacturing	148.5	127.0
Distributive	120.7	161.7
Government	152.4	152.0

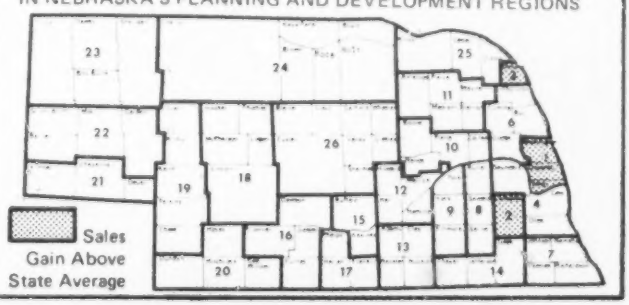


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	August 1985 as percent of August 1984	August 1985 as percent of August 1984	1985 to date as percent of 1984 to date
The State	97.4	96.4	99.5
1 Omaha	100.4	100.1	105.3
Bellevue	112.7		
Blair	112.9		
2 Lincoln	103.3	102.0	103.5
3 So. Sioux City	102.7	101.4	100.2
4 Nebraska City	103.2	102.0	95.2
6 Fremont	98.4	91.3	95.3
West Point	92.8		
7 Falls City	93.0	97.1	94.7
8 Seward	97.7	98.9	92.7
9 York	102.0	91.7	93.4
10 Columbus	103.4	95.3	92.5
11 Norfolk	93.2	87.3	94.3
Wayne	93.7		
12 Grand Island	94.4	91.8	95.3
13 Hastings	92.1	86.3	93.2
14 Beatrice	109.8	98.5	94.0
Fairbury	95.5		
15 Kearney	100.0	88.6	92.8
16 Lexington	97.6	89.3	91.1
17 Holdrege	86.3	86.3	88.6
18 North Platte	87.4	87.7	91.8
19 Ogallala	98.5	92.4	91.0
20 McCook	104.2	98.4	95.1
21 Sidney	97.7	96.4	98.2
Kimball	96.1		
22 Scottsbluff/Gering	102.2	98.4	97.9
23 Alliance	99.6	96.2	98.0
Chadron	103.4		
24 O'Neill	78.2	90.7	91.5
25 Hartington	84.8	85.2	90.5
26 Broken Bow	90.0	91.8	91.8

[1]See region map below.
[2]Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1985 YEAR TO DATE AS PERCENT OF 1984 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



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dipped 15.6 percent. Cash receipts for state and U.S. agriculture commodities are unavailable.

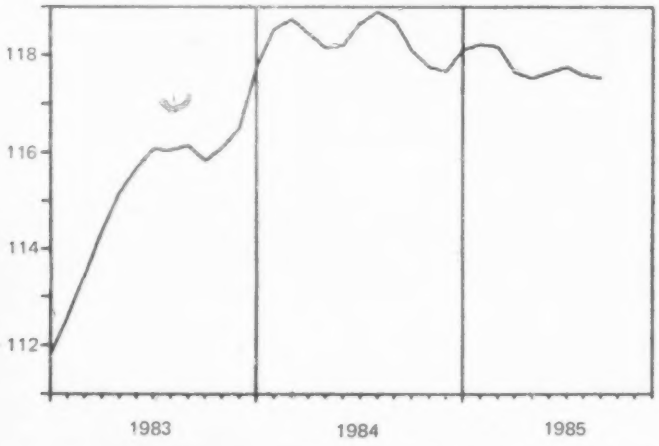
On a yearly basis (August 1984-to-August 1985), state retail sales continued a downward slide. Nebraska total dollar volume sales fell 3.6 percent in August, 5.1 percent when price changes are taken into account. Since August 1984, Nebraska motor vehicle sales have decline 10.3 percent, 10.2 price adjusted. Compared to the August 1984 sales level, Nebraska dollar volume nonvehicle sales slipped 2.8 percent. Nationally, dollar volume retail sales increased 1.9 percent from July to August 1985 and were up more than 8 percent compared to August 1984 sales.

Eight of the twenty-six cities listed by the Bureau of Business Research registered positive changes in business activity from August 1984 to August 1985. Although construction activity has tapered in Chadron, this city continues to lead with a 10.2 percent gain. Strong August increases in building activity and retail sales elevated Blair (+5.8 percent) and Beatrice (+4.6 percent) toward the top of the list of Nebraska cities with positive changes in business activity. Scottsbluff/Gering business activity increased 5.1 percent due to a significant upswing in construction activity, while a 12.7 percent growth in retail sales contributed to Bellevue's increase in August business activity.

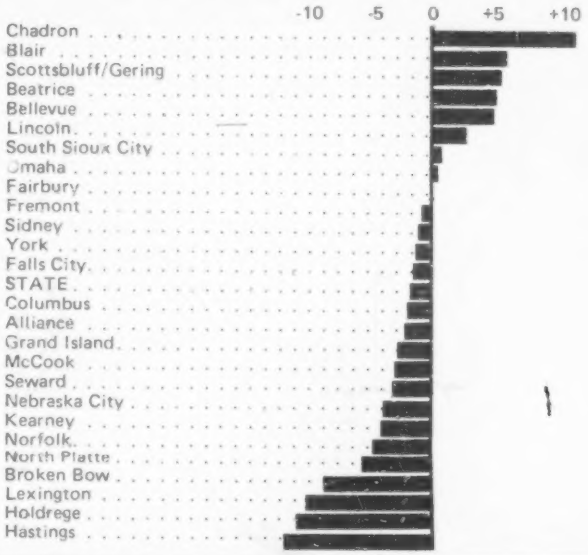
August's 0.3 percent decline in the Nebraska index of leading economic indicators has been revised upward to a 0.2 percent decline. The September leading index remained unchanged from the August level. The state's leading index has remained virtually flat during the last six months (April-September).

CHARLES L. BARE

Nebraska's Composite Index of Leading Economic Indicators
1977=100



CITY BUSINESS INDEX
Percent Change August 1984 to August 1985



5. PRICE INDEXES

August 1985	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	323.5	103.4	103.6
Commodity component	286.5	101.8	102.2
Wholesale Prices	307.2	98.8	99.5
Agricultural Prices			
United States	221.0	84.4	89.8
Nebraska	207.0	82.8	89.4

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

4. August 1985 CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	99.7	104.5	90.7
Alliance	98.8	81.6	99.6
Beatrice	99.4	132.7	83.3
Bellevue	100.1	86.6	90.0
Blair	100.1	122.6	101.3*
Broken Bow	100.3	43.6	88.0
Chadron	95.7	1,075.9	96.3
Columbus	95.8	81.1	85.4
Fairbury	99.5	185.7	105.1
Falls City	100.2	167.4	83.5
Fremont	100.4	114.1	82.1*
Grand Island	99.2	106.5	85.5
Hastings	99.6	14.6	87.3
Holdrege	100.7	31.2	90.9
Kearney	99.1	46.5	90.4
Lexington	98.4	18.1	99.9
Lincoln	101.4	126.0	96.1
McCook	99.3	41.6	111.1
Nebraska City	99.4	35.2	88.2
Norfolk	99.2	76.7	106.8
North Platte	99.9	90.3	na
Omaha	100.1	125.4	83.0
Scottsbluff/Gering	100.2	272.8	145.0
Seward	100.2	63.5	91.1
Sidney	99.2	129.2	100.6
So. Sioux City	99.7	111.0	110.0
York	99.3	84.0	92.6

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

(continued from page 1)

try is larger in Nebraska than it is nationally. The transportation, communication, and utilites (TCU) sector is also above the U.S. average. Railroads are an important component of the state economy.

Services are approximately the same proportion of Nebraska's economy as the nation's economy. Manufacturing is below the national average, as are the mining and construction sectors.

The proportion of employees in the government sector is higher than nationally. This is attributable to the role that public power plays in Nebraska. Removal of electrical utility employees from the government sector would bring Nebraska's government employment in line with national trends.

The service sector is the fastest growing sector in the nation's economy. The same trend is occurring in Nebraska. The service sector of 1984 is more than haircuts, lunches, automobile repair, and related items which are familiar and important to all. Some services are entirely local, but others are exports. When a large insurance company writes a policy on health and medical risk to an out of state firm, it becomes an export. When a software firm sells a program to someone in California or New York, it becomes an export and adds to Nebraska's economic base. These service operations do far more than service basic industry. They would survive in the event that other basic industries failed.

OBSERVATIONS

Nebraska's employment changes follow the 1967-1984 national employment trends closely. Unfortunately, the rate of employment increase in Nebraska was only about 90.0 percent of the nation's employment increase. It is interesting to note that, by and large, Nebraska follows U.S. trends. For instance, services, finance, insurance, and real estate, and trade ranked 1st, 2nd, and 3rd nationally and in Nebraska.

Nebraska employment trends part from national trends in manufacturing, construction, and mining. Mining is easy to understand, because Nebraska has no sizable mining sector.

The limited growth of Nebraska's construction sector indicates the dearth of construction activity following the 1981-1982 recession. Construction employment has increased more or less uninterruptedly in Nebraska through 1978, peaking at 33,000 employees in 1978 and declining to 24,000 workers in 1984. Nationwide, construction employment peaked at 4.3 million in 1979. It declined during the 1981-1982 recession, but now has climbed near the peak level of 1979. Nebraska construction employment is about 9,000 persons below peak levels.

Employment in Nebraska's manufacturing sector ran counter to national trends, registering an 11.0 percent gain, compared to a small decline nationally. Manufacturing employment in Nebraska increased to 99,000 in 1979. It then began a decline which bottomed in 1983 at 85,000. Employment in 1984 in the state's manufacturing sector was higher than it was in 1967. There was virtually no change over that interval in national manufacturing employment. Nebraska's smaller and less diversified manufacturing base is undoubtedly important in explaining the better performance of Nebraska's manufacturing sector.

DONALD E. PURSELL

NEBRASKA POPULATION PROJECTIONS 1985-2020

The Bureau of Business Research periodically prepares population projections for the state. These projections can be used by state and local governmental agencies, business firms, labor unions, and other organizations.

The latest projections were prepared in November 1982 and are based on data from the 1980 census.

Nebraska Population Projections 1985-2020 contains three projection series--high, medium, and low--based on differing assumptions of net migration. The medium series most closely reflects the trends revealed in the 1980 census and 1982 estimates. At the state level, age information is provided for five year age groups and for 75+. The information at the county level is not as detailed and is available for the age groups 0-4, 5-14, 15-24, 25-44, 45-64, and 65+. A special tabulation was made for the 0-17 age group.

Copies of *Nebraska Population Projections 1985-2000* are available for $17.50 from the Bureau of Business Research, 200 CBA, University of Nebraska-Lincoln, Lincoln, NE 68588-0406. Checks should be made to the Bureau of Business Research.

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BUSINESS IN NEBRASKA

Prepared by the Bureau of Business Research, 200 College of Business Administration, University of Nebraska, Lincoln, NE 68588-0406, 402/472-2334

CHANGING PATTERNS OF NEBRASKA BUSINESS ESTABLISHMENTS 1979-1983

The number of Nebraska business establishments has expanded in recent years. In 1979 there were an estimated 37,959 business establishments, compared with 41,889 in 1983. The number of business establishments declined in the 1980-1982 recession, but now appears to have surpassed previous numbers. Caution is advised in interpretation of the data, since a change in definitions makes 1983 establishment data not strictly comparable with previous years. This growth is reviewed in greater detail below.

The Nebraska economy peaked in 1980-1981. The metropolitan segment of Nebraska continued to expand, but growth came to a halt in 1982 as the national recession impacted the metropolitan portions of Nebraska's economy. The nonmetropolitan portions of Nebraska's economy seem to have peaked earlier, in about 1979. Several construction projects in rural Nebraska ended in the late 1970s, and sagging grain and livestock prices continued to depress the rural Nebraska economy. The payment-in-kind (PIK) program disguised some of the problems in the rural economy. When the PIK program ended, the depressed state of agriculture was apparent. Rising real interest rates and a prolonged reduction in per capita beef consumption forced many plains states packing plants out of business.

This article examines the number of Nebraska business establishments from 1979 through 1983, the most recent year for which data are available. The data on establishments were taken from *County Business Patterns*, a publication of the U.S. Department of Commerce, Bureau of the Census. An establishment is defined as a physical location where business is conducted or where services or industrial operations are performed.

The survey is conducted in mid March of each year from the Treasury's form 941. Data are reported by county. Definitional changes in 1983 make strict comparisons impossible. An establishment is included in the 1983 totals if it were active any time during calendar year 1983. For establishment data prior to 1983, an establishment had to be in operation during the surveyed period to be included. Using 1982 would avoid the definitional issues, but it would result in comparing a year of peak economic intensity (1979) with a year of depressed economy activity (1982). All states are affected equally by this change and all areas within a state are impacted equally. Caution is advised, however, in interpreting these data.

GENERAL TRENDS

The number of business establishments in Nebraska, according to *County Business Patterns*, increased from 37,959 in 1979 to 41,889 in 1983, a gain of 10.4 percent. Growth in the number of establishments was more rapid in the metro areas. Nebraska metro counties include: Douglas, Sarpy, Washington, Lancaster, and Dakota. The number of establishments rose from 15,687 in 1979 to 17,917 in 1983, an increase of 14.2 percent. Sarpy County had the largest percentage increase of all counties (23.6%), followed by Douglas (14.2%), Lancaster (12.6%), Washington (12.3%), and Dakota (11.7%).

Over the period 1979-1982, the interval when there were no definitional changes, the number of establishments in Nebraska declined by less than 500 (Table 1). Once again, the pattern of a small decline (larger increase) in the metropolitan part of the state was evident.

TABLE 1
Nebraska Business Establishments

Total	Establishments	Employees	Payroll ($ thousands)
1983	41,889	466,920	$6,938,309
1982	37,500	474,827	6,586,906
1981	37,582	481,704	6,313,644
1980	37,727	492,010	5,956,980
1979	37,959	485,332	5,341,005

Source: All tables are derived from *County Business Patterns* and from calculations by the Bureau of Business Research

While the number of business establishments is up in the state, the number of employees in these establishments has decreased steadily. In 1979 there were an estimated 485,332 employees, compared with 466,900 in 1983. This does not mean that total employment in the state has declined, because a number of inportant industries are not included in the survey. It does, however, indicate that many employers have consistently reduced the number of employees while sales have expanded. Firms have become "leaner and meaner" and, it is to be hoped, more productive and efficient. This trend toward fewer employees is occurring nationally.

In 1979, 58.0 percent of all employees in the survey were in the metro area, compared with 59.4 percent in 1983. The number of employees in metro establishments declined about 4,000, compared with the decline statewide of 14,000. In other words, there was a disproportionate number of positions eliminated in the nonmetropolitan area of the state's economy.

(continued on page 2)

TABLE 2

Number of Establishments

Nebraska Metro Counties, Counties with Larger Towns

	1983	1982	1979	Percent Change 1979-1983	Percent Change 1979-1982	Percent Change 1982-1983
Nebraska Total	41,889	37,500	37,959	10.35	-1.21	11.70
Metro Counties						
Douglas	11,129	9,839	9,746	14.19	0.95	13.11
Sarpy	1,109	920	897	23.63	2.56	20.54
Washington	402	353	358	12.29	-1.40	13.88
Lancaster	4,930	4,400	4,378	12.61	0.50	12.05
Dakota	347	310	308	12.66	0.65	11.94
Metro Total	59,806	53,322	53,646	11.48	-0.60	12.16
Nonmetro Total	23,972	21,678	22,272	7.60	-2.70	10.60
Counties with Larger Communities						
Lincoln	964	855	899	7.23	-4.89	12.75
Hall	1,577	1,422	1,462	7.87	-2.74	10.90
Adams	915	837	835	9.58	0.24	9.32
Buffalo	1,115	979	977	14.12	0.20	13.89
Box Butte	352	322	328	7.32	-1.83	9.32
Scotts Bluff	1,200	1,080	1,106	8.50	-2.35	11.11
Madison	1,035	932	988	4.76	-5.67	11.05
Keith	360	304	301	19.60	1.00	18.42
Dawes	268	253	250	7.20	1.20	5.93
Dawson	680	617	621	9.50	-0.64	10.21
Red Willow	472	436	430	9.77	0.01	0.08
Subtotal	8,938	8,037	8,197	9.04	-1.95	11.21

Source: see Table 1.

(continued from page 1)

While the number of employees has declined over the interval 1979-1983, payrolls have increased. Total Nebraska payrolls were $5.3 billion in 1979, compared with $6.9 billion in 1983. Metropolitan area payrolls soared dramatically over this interval. Sarpy County payrolls rose from $72.2 million in 1979 to $127.1 million in 1983, an increase of 76.0 percent. Douglas County payrolls increased from $2.4 billion to $3.25 billion, a gain of 36.5 percent. Lancaster County payrolls increased from $777.7 million to $1,038.1 million, a jump of 33.5 percent over the same interval. Dakota County payrolls increased 38.1 percent.

By contrast, nonmetropolitan payrolls grew from $2 billion to $2.358 billion in 1983, an increase of 18.7 percent. Once again, the dichotomy in Nebraska's economy is apparent (Chart 1).

ANALYSIS OF SURROUNDING STATES

Data in Table 3 set out the change in the number of establishments, employees, and payroll over the interval 1979-1983 for Nebraska and all bordering states. Information is provided for the state total and for a breakdown of the metropolitan and nonmetropolitan regions of each state. Metropolitan and nonmetropolitan definitions follow the conventional Department of Commerce designations, so consistency is achieved across states.

Colorado led all states in terms of establishment growth over the interval 1979-1983. Not surprisingly, Colorado also led in terms of employees and payroll over this same interval. Metropolitan and nonmetropolitan growth in Colorado have been

(continued on page 3)

TABLE 3
Percentage Change
In Establishments, Employees, and Payrolls
1979-1983

	Establishments	Employees	Payroll
Nebraska			
Total	10.4	-3.8	29.9
Metro	14.2	-1.5	36.5
Nonmetro	7.6	-7.0	18.7
Iowa			
Total	6.8	-12.2	12.2
Metro	10.7	-11.4	12.6
Nonmetro	4.3	-13.1	11.7
South Dakota			
Total	9.2	-6.1	25.5
Metro	12.4	1.4	34.2
Nonmetro	8.5	-9.0	21.1
Kansas			
Total	13.5	-5.7	29.1
Metro	17.8	-5.4	30.2
Nonmetro	10.0	-6.1	27.1
Missouri			
Total	12.1	-5.8	28.7
Metro	16.2	-1.7	35.1
Nonmetro	6.8	-12.4	17.1
Wyoming			
Total	22.0	-4.9	24.3
Metro	14.4	-14.4	7.2
Nonmetro	23.8	-2.5	29.0
Colorado			
Total	26.7	7.6	54.3
Metro	31.9	13.0	63.8
Nonmetro	20.7	1.9	44.5

(continued from page 2)
greater than in most states of this region. Wyoming, in many cases, is a close second.

A net increase in businesses was more likely to be established in a metropolitan area than in a nonmetropolitan area. In each case, the metro growth rate was greater than the nonmetro growth rate. Likewise, employees were more likely to find employment opportunities more numerous in the metropolitan areas than in the nonmetropolitan areas in Nebraska and all surrounding states. Colorado recorded an increase in employees and South Dakota registered a gain at the metropolitan level, probably because of the establishment of Citicorps facilities in Sioux Falls. Payrolls rose more substantially in Colorado than in other states.

Ranking the states reveals some interesting trends. Colorado ranked first in all categories. Nebraska ranked second in terms of employment growth and payroll growth, although establishment growth ranked fifth during the interval 1979-1983. Nebraska's metropolitan areas ranked second only behind Colorado in terms of the change in the number of employees and payroll increases. It should be noted that Colorado was the only state to record a gain in the number of employees over the period 1979-1983. Nebraska registered a 3.8 percent decrease in employees, which was the second best among Nebraska and surrounding states. Nebraska's payroll climbed 29.9 percent over the interval 1979-1983, second only to Colorado's 54.3 percent jump.

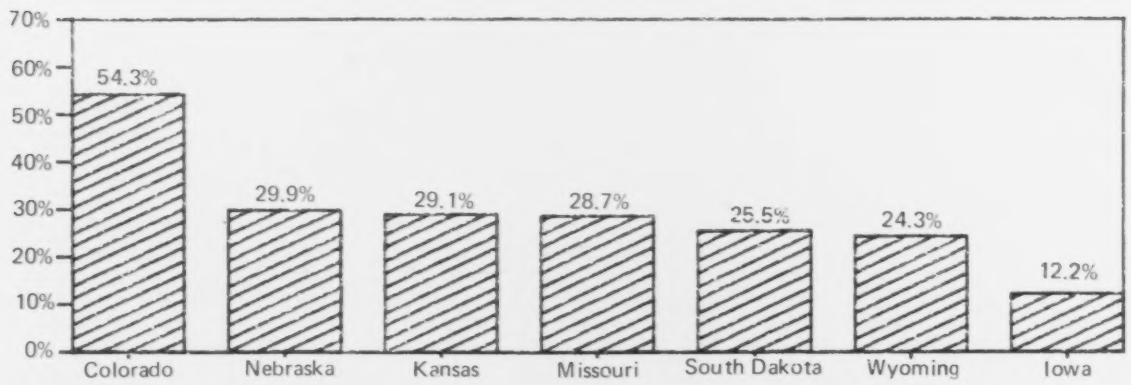
DONALD E. PURSELL

TABLE 4
Ranking of Nebraska Compared to Surrounding States

	Establishments	Employees	Payroll
State	5	2	2
Metro	5	2	2
Nonmetro	4	4	4

Source: see Table 1.

CHART 1
Percentage Change in Payrolls 1979-1983 in Nebraska and Surrounding States



Review and Outlook

Declines in real output for both the agriculture and nonagriculture components of Nebraska's economy led to a September 1985 drop in the Bureau of Business Research's physical volume index. On a month-to-month basis, state economic activity fell 0.8 percent during September. Agriculture output decreased 3.6 percent, while nonagriculture activity was down 0.2 percent.

The level of manufacturing activity continued to seesaw with September output declining 1.2 percent, after increasing 1.4 percent during the previous month. September construction output fell 2.3 percent, the fourth monthly drop in economic activity for this component. Output for the distributive sector remained flat in September, while the government component registered an increase in economic activity of 0.9 percent.

The Bureau of Business Research is receiving current data on cash farm marketings again from the U.S. Department of Agriculture. On a seasonally adjusted basis, Nebraska cash farm marketings increased $45 million during September 1985. State cash receipts were up $153 million from the September 1984 level, a gain of 45 percent. After months of steady decline, Nebraska's index of agriculture prices received rose during September. Ag prices received were up 1.4 percent from the level of the previous month, but down 15 percent from the September 1984 index.

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes–see Table 5, page 5.

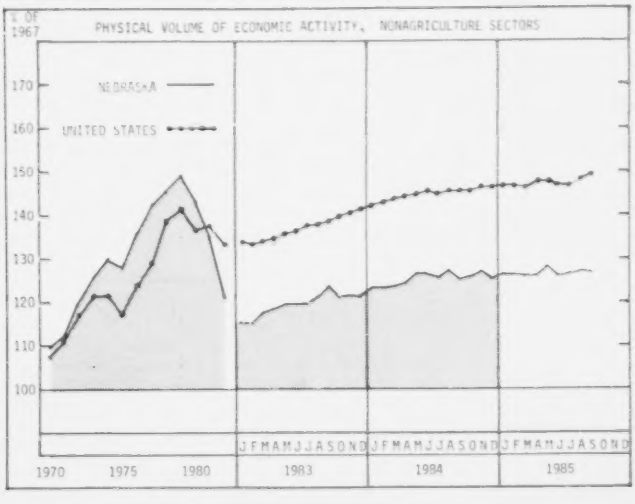
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

September 1985	Current Month as Percent of Same Month Previous Year		1985 to date as percent of 1984 to date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	107.9	106.3	104.7	105.7
Agricultural	136.4	106.9	103.5	98.8
Nonagricultural	104.5	106.3	104.9	105.9
Construction	91.6	107.8	94.3	109.4
Manufacturing	98.5	99.0	100.0	100.4
Distributive	105.8	108.7	105.5	107.5
Government	111.2	106.8	113.2	106.8
Physical Volume	108.8	103.7	103.8	102.9
Agricultural	160.4	123.1	117.1	110.6
Nonagricultural	101.6	103.2	101.5	102.6
Construction	89.6	105.4	91.7	106.3
Manufacturing	99.6	99.0	100.4	100.0
Distributive	102.6	105.3	101.8	103.8
Government	103.9	101.7	104.6	101.7

2. CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	382.5	452.9
Agricultural	385.4	331.0
Nonagricultural	381.9	456.8
Construction	273.9	460.8
Manufacturing	360.0	317.6
Distributive	391.7	532.5
Government	432.5	463.4
Physical Volume	134.5	149.5
Agricultural	183.5	151.2
Nonagricultural	127.0	149.4
Construction	76.7	129.1
Manufacturing	146.7	125.3
Distributive	120.7	164.1
Government	153.7	152.2

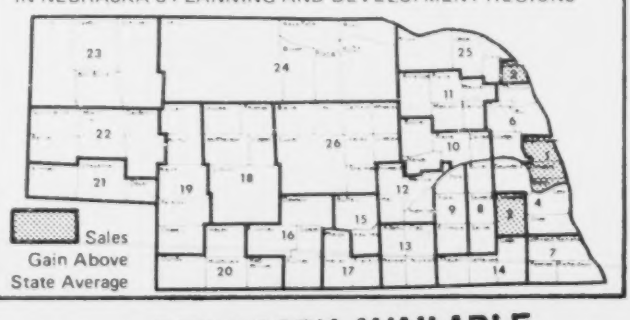


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number[1] and City	City Sales[2] Sept. 1985 as percent of Sept. 1984	Sales in Region[2] Sept. 1985 as percent of Sept. 1984	Sales in Region[2] 1985 to date as percent of 1984 to date
The State	97.5	100.1	99.6
1 Omaha	103.5	105.7	105.3
Bellevue	99.5		
Blair	106.9		
2 Lincoln	101.4	105.9	103.8
3 So. Sioux City	102.4	103.5	100.6
4 Nebraska City	98.1	104.0	96.2
6 Fremont	96.7	95.8	95.4
West Point	101.0		
7 Falls City	95.1	96.2	94.9
8 Seward	85.7	91.5	92.6
9 York	94.4	94.1	93.4
10 Columbus	90.1	93.7	92.7
11 Norfolk	85.1	90.9	93.9
Wayne	93.8		
12 Grand Island	88.8	91.6	94.8
13 Hastings	82.6	82.3	91.9
14 Beatrice	98.2	102.2	94.9
Fairbury	99.9		
15 Kearney	97.5	96.4	93.2
16 Lexington	92.7	88.7	90.8
17 Holdrege	77.6	84.1	88.1
18 North Platte	89.7	91.3	91.7
19 Ogallala	84.0	86.0	90.5
20 McCook	91.3	92.3	94.8
21 Sidney	103.7	94.8	97.8
Kimball	78.7		
22 Scottsbluff/Gering	98.7	102.3	98.3
23 Alliance	96.4	94.3	97.6
Chadron	84.0		
24 O'Neill	92.8	89.5	91.2
25 Hartington	110.0	92.3	90.7
26 Broken Bow	90.6	92.5	91.9

[1] See region map below.
[2] Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1985 YEAR TO DATE AS PERCENT OF 1984 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



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(continued from page 4)

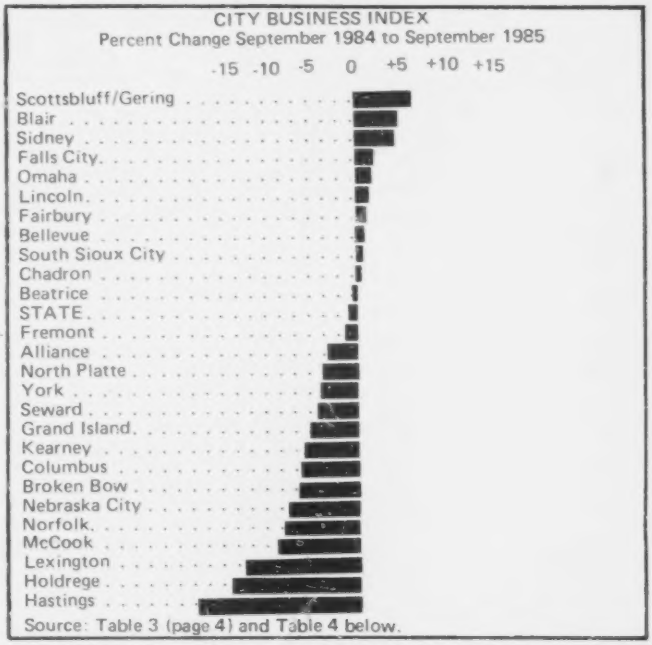
From August to September 1985, the U.S. index of farm prices received was down 0.9 percent; it has dropped 13.1 percent from last September's level.

Compared to September 1984 sales, Nebraska total dollar volume retail sales grew 0.1 percent during September 1985. The increase in total retail sales was due primarily to a 21.7 percent rise in unadjusted motor vehicle sales. Discounts, rebates, and low financing rates offered by automobile dealers prompted consumers to purchase cars and trucks at accelerated rates. When adjusted for price changes, however, total retail sales dropped 1.5 percent in the state during September. Dollar volume nonvehicle sales continued to slide downward in September, falling 2.5 percent. When adjusted for price changes, nonvehicle sales declined 4.1 percent. State retail sales showed continued weakness--only seven cities listed in Table 3 registered sales above September 1984 sales levels.

A sizable decline in September retail sales dropped Chadron to the bottom of the list of cities with positive changes in business activity as measured by the Bureau's city business indicators. Comparing September 1985 economic activity with that of one year ago, ten of the twenty-six cities listed in Table 4 registered positive changes in business activity. Statewide, business activity declined 1.0 percent. Scottsbluff/Gering, bolstered by relatively stable retail sales and an increase in building, led with a 6.5 percent rise in economic activity. Blair's business activity moved upward 4.9 percent, and Sidney's 4.5 percent increase was due to gains in both sales and construction activity. Nebraska's metro areas experienced positive changes in business activity; Omaha scored a 1.9 percent gain, followed by Lincoln with an increase of 1.5 percent.

With the exceptions of short alternating sequences of increases and declines, the Nebraska composite index of leading economic indicators changed little during 1985 (January 1985 at 118.1 and October 1985 at 117.7). The revised September index dropped 0.3 percent after previously being reported flat. The October leading index increased 0.4 percent due to significant gains in the stock price component and the index of prices received by state farmers. Caution should be exercised in interpreting the October increase, since the stock price index is a national index used as a proxy for Nebraska money and credit indicators.

CHARLES L. BARE



Source: Table 3 (page 4) and Table 4 below.

4. September 1985 — CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Employment[1]	Building Activity[2]	Power Consumption[3]
The State	99.9	111.5	99.0
Alliance	99.0	87.0	107.3
Beatrice	99.5	136.3	91.9
Bellevue	100.1	140.3	96.9
Blair	100.1	171.8	106.2*
Broken Bow	100.6	61.9	NA
Chadron	96.4	758.8	89.8
Columbus	95.8	102.5	95.5
Fairbury	100.0	147.2	116.6
Falls City	100.7	258.5	104.2
Fremont	101.2	105.9	102.9*
Grand Island	99.7	107.8	98.1
Hastings	100.1	14.3	113.5
Holdrege	101.3	37.4	96.5
Kearney	99.4	41.2	97.6
Lexington	98.6	17.1	102.3
Lincoln	100.5	133.4	100.7
McCook	99.6	38.9	95.3
Nebraska City	100.0	27.9	99.3
Norfolk	99.8	74.4	92.8
North Platte	100.3	113.5	98.2
Omaha	100.1	124.2	96.5
Scottsbluff/Gering	100.7	474.7	100.4
Seward	100.6	144.2	106.2*
Sidney	99.5	221.7	99.4
So. Sioux City	99.1	112.1	105.6
York	99.6	77.9	109.5

[1] As a proxy for city employment, total employment for the county in which a city is located is used.

[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES

September 1985	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	324.5	103.2	103.6
Commodity component	287.1	101.7	102.1
Wholesale Prices	305.8	98.9	99.4
Agricultural Prices			
United States	219.0	86.9	89.5
Nebraska	210.0	85.0	89.0

*Using arithmetic average of monthly indexes.

Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

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A team of specialists from the University of Nebraska-Lincoln will explore the outlook for Nebraska business and agriculture. Donald E. Pursell, Director of the Bureau of Business Research, Thomas S. Zorn, Assistant Professor of Finance, and Bruce B. Johnson, Associate Professor of Agricultural Economics, will present prognostications based on data compiled by the Bureau of Business Research for expected financial conditions for various sectors of the state economy for 1986.

DONALD E. PURSELL is an expert on the Nebraska and the national economy.

In addition to his duties as director of the UN-L Bureau of Business Research and Professor of Business Administration, Pursell also serves as a member of the City of Lincoln's Economic Development Commission and as a economic development consultant to several communities. In the past, he has worked with the National Academy of Science, the Ford Foundation, and the U.S. House of Representatives' Select Committee on Aging.

BRUCE B. JOHNSON is a close observer of financial conditions in the agricultural sector in Nebraska. Chief among his current works is a research study of the economic, social, and psychological impacts of the current farm crisis.

Presently an Associate Professor of Agricultural Economics at the University of Nebraska-Lincoln, Johnson was formerly on the staff of the Economic Research Service division of the U.S. Department of Agriculture. He holds degrees in agriculture and ag economics from Michigan State University and from the University of Nebraska.

THOMAS S. ZORN, Assistant Professor in the UN-L Finance Department, specializes in the study of the impact of information on markets. Banking, the effects of managerial incentives, and the impact of gambling are Zorn's other research interests. He has authored articles in the *Journal of Finance, Economic Inquiry, Quarterly Journal of Business and Economics*, and other business publications.

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TRENDS IN NEBRASKA POPULATION, 1870-1980

Several interesting trends emerged from the 1980 Census. One of the topics that received considerable attention in both the popular press and in academic publications was whether a rural renaissance had occurred in America during the 1970s. Six years later, the focus of press interest has shifted to a possible depopulation of rural areas. Have events changed that rapidly, or was there simply a lack of historical perspective in 1980? To provide the perspective, this article reviews population changes and trends in Nebraska counties from 1870 to 1980.

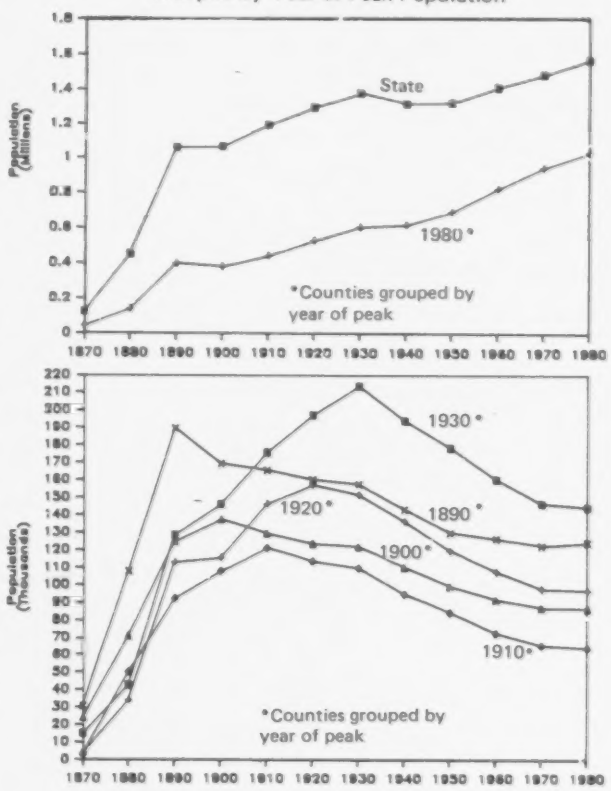
Nebraska's population has grown steadily since statehood, with 1980's population higher than any preceding census. In only one decade (1930-1940) did the state as a whole lose population. At the state level of aggregation, however, conflicting patterns among counties are hidden. For example, it is obvious when looking at license plates that not all counties maintained their relative rankings during the last fifty years. Custer County, for instance, has prefix number 4, but ranked 21st in population in 1980. Sarpy County has number 59, but now is the 3rd largest county in population.

The population of Nebraska counties from 1870 to 1980 can be found in Table 1 on pages 2 and 3. Upon inspection, two distinct patterns of change emerge. One group of counties has grown steadily during the twelve decade period, with the most recent census (1980) representing the highest population. Nearly all of the remaining counties exhibited different behavior. These counties grew rapidly during the first few decades of the period, peaking some time between 1890 and 1930. Since their peaks, these counties, with some recent exceptions, have steadily lost population. Figure 1 contains comparative patterns of growth.

Despite the fact that 80 percent of the state's counties reached their peaks more than a half century ago, Figure 1 illustrates that Nebraska's total population has grown steadily, and its 1980 population was higher than any preceding census. The reason for this, of course, is that the growing counties are among the state's largest. In 1980, they accounted for two-thirds of the state's population, up from one-third at the beginning of the time period.

Figure 2 shows the distribution of counties by census in which they recorded their highest population. Figure 2 also illustrates that only 16 of the state's 93 counties have grown steadily, with 1980 the census with the highest population. Of the remainder, two counties reached their highest populations in 1960, one in 1940, and the remaining 74 counties recorded their highest censuses in 1930 or earlier. The largest number of counties (21) reached their peak in 1930, 18 in 1920, 12 each in 1910 and 1890, and 11 in 1900.

FIGURE 1
Aggregate Population of Counties
Grouped by Year of Peak Population



The sixteen consistently growing counties represent the state's most populous and economically diversified counties. They generally lie along the interstate or Platte River and contain all five of the state's metropolitan counties. In 1980, these counties accounted for 66 percent of the population and only 16 percent of the land area. The two adjacent counties of Kimball and Cheyenne reached their peak population in 1960 during the construction of the Minuteman missile silos. Counties that recorded their highest populations in 1930 were located in the northwest, southwest, and northeast corners of Nebraska. The Sandhills and north central Nebraska began losing population after the 1920 Census. Counties which peaked in 1910, 1900, and 1890 generally were located in the southeast and southern part of the state.

(continued on page 3)

TABLE 1
Population of Nebraska Counties, 1870-1980

	1980	1970	1960	1950	1940	1930	1920	1910	1900	1890	1880**	1870**	1980 as % of Peak Year
Adams	30,656	30,553	28,944	28,855	24,576	26,275	22,621	20,900	18,840	24,303	10,235	19	100.0
Antelope	8,675	9,047	10,176	11,624	13,289	15,206	15,243	14,003	11,344	10,399	3,953	--	56.9
Arthur	513	606	680	803	1,045	1,344	1,412	--	--	91	--	--	36.3
Banner	918	1,034	1,269	1,325	1,403	1,676	1,435	1,444	1,114	2,435	--	--	37.7
Blaine	867	847	1,016	1,203	1,538	1,584	1,778	1,672	603	1,146	--	--	48.8
Boone	7,391	8,190	9,134	10,721	12,127	14,738	14,146	13,145	11,689	8,683	4,170	--	50.1
Box Butte	13,696	10,094	11,688	12,279	10,736	11,861	8,407	6,131	5,572	5,494	--	--	100.0
Boyd	3,331	3,752	4,513	4,911	6,060	7,169	8,243	8,826	7,332	695	--	--	37.7
Brown	4,377	4,021	4,436	5,164	5,962	5,772	6,749	6,083	3,470	4,359	--	--	64.9
Buffalo	34,797	31,222	26,236	25,134	23,655	24,338	23,787	21,907	20,254	22,162	7,531	193	100.0
Burt	8,813	9,247	10,192	11,536	12,546	13,062	12,559	12,726	13,040	11,069	6,937	2,847	67.5
Butler	9,330	9,461	10,312	11,432	13,106	14,410	14,606	15,403	15,703	15,454	9,194	1,290	59.4
Cass	20,297	18,076	17,821	16,361	16,992	17,684	18,029	19,786	21,330	24,080	16,683	8,151	84.3
Cedar	11,375	12,192	13,368	13,843	15,126	16,427	16,225	15,191	12,467	7,028	2,899	1,032	69.2
Chase	4,758	4,129	4,317	5,176	5,310	5,484	4,939	3,613	2,559	4,807	70	--	86.8
Cherry	6,758	6,846	8,218	8,397	9,637	10,898	11,753	10,414	6,541	6,428	--	--	57.5
Cheyenne	10,057	10,778	14,828	12,081	9,505	10,187	8,405	4,551	5,570	5,693	1,558	190	67.8
Clay	8,106	8,266	8,717	8,700	10,445	13,571	14,486	15,729	15,735	16,310	11,294	54	49.7
Colfax	9,890	9,498	9,595	10,010	10,627	11,434	11,624	11,610	11,211	10,453	6,588	1,424	85.1
Cuming	11,664	12,034	12,435	12,994	13,562	14,327	13,769	13,782	14,584	12,265	5,569	2,964	80.0
Custer	13,877	14,092	16,517	19,170	22,591	26,189	26,407	25,668	19,758	21,677	2,211	--	52.6
Dakota	16,573	13,137	12,168	10,401	9,836	9,505	7,694	6,564	6,286	5,386	3,213	2,040	100.0
Dawes	9,609	9,761	9,536	9,708	10,128	11,493	10,160	8,254	6,215	9,722	--	--	83.6
Dawson	22,304	19,771	19,405	19,393	17,890	17,875	16,004	15,961	12,214	10,129	2,909	103	100.0
Deuel	2,462	2,717	3,125	3,330	3,580	3,992	3,282	1,786	2,630	2,893	--	--	61.7
Dixon	7,137	7,453	8,106	9,129	10,413	11,586	11,815	11,477	10,535	8,084	4,177	1,345	60.4
Dodge	35,847	34,782	32,471	26,265	23,799	25,273	23,197	22,145	22,298	19,260	11,263	4,212	100.0
Douglas	397,038	389,455	343,490	281,020	247,562	232,982	204,524	168,546	140,590	158,008	37,645	19,982	100.0
Dundy	2,861	2,926	3,570	4,354	5,122	5,610	4,869	4,098	2,434	4,012	37	--	51.0
Fillmore	7,920	8,137	9,425	9,610	11,417	12,971	13,671	14,674	15,087	16,022	10,204	238	49.4
Franklin	4,377	4,566	5,449	7,096	7,740	9,094	10,067	10,303	9,455	7,693	5,465	26	42.5
Frontier	3,647	3,982	4,311	5,282	6,417	8,114	8,540	8,572	8,781	8,497	934	--	41.5
Furnas	6,486	6,897	7,711	9,385	10,098	12,140	11,657	12,083	12,373	9,840	6,407	--	52.4
Gage	24,456	25,731	26,818	28,052	29,588	30,242	29,721	30,325	30,051	36,344	13,164	3,359	67.3
Garden	2,802	2,929	3,472	4,114	4,680	5,099	4,572	3,538	--	--	--	--	55.0
Garfield	2,363	2,411	2,699	2,912	3,444	3,207	3,496	3,417	2,127	1,659	--	--	67.6
Gosper	2,140	2,178	2,489	2,734	3,687	4,287	4,669	4,933	5,301	4,816	1,673	--	40.4
Grant	877	1,019	1,009	1,057	1,327	1,427	1,486	1,097	763	458	--	484	59.0
Greeley	3,462	4,000	4,595	5,575	6,845	8,442	8,685	8,047	5,691	4,869	1,461	--	39.9
Hall	47,690	42,851	35,757	32,186	27,523	27,117	23,720	20,361	17,206	16,513	8,572	1,057	100.0
Hamilton	9,301	8,867	8,714	8,778	9,982	12,159	13,237	13,459	13,330	14,096	8,267	130	66.0
Harlan	4,292	4,357	5,081	7,189	7,130	8,957	9,220	9,578	9,370	8,158	6,086	--	44.8
Hayes	1,356	1,530	1,919	2,404	2,958	3,603	3,327	3,011	2,708	3,953	119	--	34.3
Hitchcock	4,079	4,051	4,829	5,867	6,404	7,269	6,045	5,415	4,409	5,799	1,012	--	56.1
Holt	13,552	12,933	13,722	14,859	16,552	16,509	17,151	15,545	12,224	13,672	3,287	--	79.0
Hooker	990	939	1,130	1,061	1,253	1,180	1,378	981	432	426	--	--	71.8
Howard	6,773	6,807	6,541	7,226	8,422	10,020	10,739	10,783	10,343	9,430	4,391	--	62.8
Jefferson	9,817	10,436	11,620	13,623	15,532	16,409	16,140	16,852	15,196	14,850	8,096	2,440	58.3
Johnson	5,285	5,743	6,281	7,251	8,662	9,157	8,940	10,187	11,197	10,333	7,595	3,429	47.2
Kearney	7,053	6,707	6,580	6,409	6,854	8,094	8,583	9,106	9,866	9,061	4,072	58	71.5
Keith	9,364	8,487	7,958	7,449	8,333	6,721	5,294	3,692	1,951	2,556	194	--	100.0
Keya Paha	1,301	1,340	1,672	2,160	3,235	3,203	3,594	3,452	3,076	3,920	--	--	33.2
Kimball	4,882	6,009	7,975	4,283	3,913	4,675	4,498	1,942	758	959	--	--	61.2
Knox	11,457	11,723	13,300	14,820	16,478	19,110	18,894	18,358	14,343	8,552	3,666	261	60.0
Lancaster	192,884	167,972	155,272	119,742	100,585	100,324	85,902	73,793	64,835	76,395	28,090	7,074	100.0
Lincoln	36,455	29,538	28,491	27,380	25,425	25,627	23,420	15,684	11,416	10,441	3,632	17	100.0

TABLE 1 (continued)
Population of Nebraska Counties, 1870-1980

	1980	1970	1960	1950	1940	1930	1920	1910	1900	1890	1880**	1870**	1980 as % of Peak Year
Logan	983	991	1,108	1,357	1,742	2,014	1,596	1,521	960	1,378	--	--	48.8
Loup	859	854	1,097	1,348	1,777	1,818	1,946	2,188	1,305	1,662	--	--	39.3
McPherson	593	623	735	825	1,175	1,358	1,692	2,470	517	401	--	--	24.0
Madison	31,382	27,402	25,145	24,338	24,269	26,037	22,511	19,101	16,976	13,669	5,589	1,133	100.0
Merrick	8,945	8,751	8,363	8,812	9,354	10,619	10,763	10,379	9,255	8,758	5,341	557	83.1
Morrill	6,085	5,813	7,057	8,263	9,436	9,950	9,151	4,584	--	--	--	--	61.2
Nance	4,740	5,142	5,635	6,512	7,653	8,718	8,712	8,926	8,222	5,773	1,212	44	53.1
Nemaha	8,367	8,976	9,099	10,973	12,781	12,356	12,547	13,095	14,952	12,930	10,451	7,593	56.0
Nuckolls	6,726	7,404	8,217	9,609	10,446	12,629	13,236	13,019	12,414	11,417	4,235	8	50.8
Otoe	15,183	15,576	16,503	17,056	18,994	19,901	19,494	19,323	22,288	25,403	15,727	12,345	59.8
Pawnee	3,937	4,473	5,356	6,744	8,514	9,423	9,578	10,582	11,770	10,340	6,920	4,171	33.4
Perkins	3,637	3,423	4,189	4,809	5,197	5,834	3,967	2,570	1,702	4,364	--	--	62.3
Phelps	9,769	9,553	9,800	9,048	8,452	9,261	9,900	10,451	10,772	9,869	2,447	--	90.7
Pierce	8,481	8,493	8,722	9,405	10,211	11,080	10,681	10,122	8,445	4,864	1,202	152	76.5
Platte	28,852	26,544	23,992	19,910	20,191	21,181	19,464	19,006	17,747	15,437	9,511	1,899	100.0
Polk	6,320	6,468	7,210	8,044	8,748	10,092	10,714	10,521	10,542	10,817	6,846	136	58.4
Red Willow	12,615	12,191	12,940	12,977	11,951	13,859	11,434	11,056	9,604	8,837	3,044	--	91.0
Richardson	11,315	12,277	13,903	16,886	19,178	19,826	18,968	17,448	19,614	17,574	15,031	9,780	57.1
Rock	2,383	2,231	2,554	3,026	3,977	3,366	3,703	3,627	2,809	3,083	--	--	59.9
Saline	13,131	12,809	12,542	14,046	15,010	16,356	16,514	17,866	18,252	20,097	14,491	3,106	65.3
Sarpy	86,015	66,200	31,281	15,693	10,835	10,402	9,370	9,274	9,080	6,875	4,481	2,913	100.0
Saunders	18,716	17,018	17,270	16,923	17,892	20,167	20,589	21,179	22,085	21,577	15,810	4,547	84.7
Scotts Bluff	38,344	36,432	33,809	33,939	33,917	28,644	20,710	8,355	2,552	1,888	--	--	100.0
Seward	15,789	14,460	13,581	13,155	14,167	15,938	15,867	15,895	15,690	16,140	11,147	2,953	97.8
Sheridan	7,544	7,285	9,049	9,539	9,869	10,793	9,625	7,328	6,033	8,687	--	--	69.9
Sherman	4,226	4,725	5,382	6,421	7,764	9,122	8,877	8,278	6,550	6,399	2,061	--	46.3
Sioux	1,845	2,034	2,575	3,124	4,001	4,667	4,528	5,599	2,055	2,452	699	--	33.0
Stanton	6,549	5,758	5,783	6,387	6,887	7,809	7,756	7,542	6,959	4,619	1,813	636	83.9
Thayer	7,582	7,779	9,118	10,563	12,262	13,684	13,976	14,775	14,325	12,738	6,113	--	51.3
Thomas	973	954	1,078	1,206	1,553	1,510	1,773	1,191	628	517	--	--	54.9
Thurston	7,186	6,942	7,237	8,590	10,243	10,462	9,589	8,704	6,517	3,176	109	31	68.7
Valley	5,633	5,783	6,590	7,252	8,163	9,533	9,823	9,480	7,339	7,092	2,324	--	57.3
Washington	15,508	13,310	12,103	11,511	11,578	12,095	12,180	12,738	13,086	11,869	8,631	4,452	100.0
Wayne	9,858	10,400	9,959	10,129	9,880	10,566	9,725	10,397	9,862	6,169	813	182	93.3
Webster	4,858	5,396	6,224	7,395	8,071	10,210	10,922	12,008	11,619	11,210	7,104	16	40.5
Wheeler	1,060	1,051	1,297	1,526	2,170	2,335	2,531	2,292	1,362	1,683	644	--	41.9
York	14,798	13,685	13,724	14,340	14,874	17,239	17,146	18,721	18,205	17,279	11,170	604	79.0
State Total*	1,569,825	1,485,333	1,411,330	1,325,510	1,315,834	1,377,963	1,296,372	1,192,214	1,066,300	1,058,910	452,402	122,993	100.0

* The state total is less than the sum of the counties due to rounding.
** The state total is more than the sum of the counties because several areas never had a legal existence and were dropped or reorganized in subsequent years.
Source: U.S. Bureau of the Census, *Population Census*, 1980-Volume 1, Chapter A-Nebraska (Number of Inhabitants) and similar publications for preceding years.

(continued from page 1)

Figure 3 maps the distribution of counties by the percentage of their 1980 population to their highest population. From this map, it can be seen that the 16 counties with highest population in 1980 obviously were 100 percent of the 1980 Census. For 15 of the remaining counties, the 1980 Census was 75 to 99.9 percent of their highest census; it was 50 to 74.9 percent for 40 counties; and for 22 counties, their population in 1980 was less than 50 percent of their highest census.

From Figure 3, it can be seen that the counties that were in the 75 to 99.9 percent range almost always were adjacent to one or more of the steadily growing counties. Most of the counties in this group also grew between 1970 and 1980. The counties at the other end of the scale, those falling below 50 percent, were scattered throughout the state, although most were located in the Sandhills area or southern third of the state.

Many reasons can be hypothesized for the disparity of trends in Nebraska's county populations. For those counties that peaked between 1890 and 1930, part of the reason for their early decline was that their initial growth was too rapid and could not be supported by the existing economic (agricultural) base. In addi-

(continued on page 6)

Review and Outlook

A large decline in real output for the agriculture component of the Nebraska economy precipitated a drop for October 1985 in the Bureau of Business Research's physical volume index. On a monthly basis, total economic activity declined 1.9 percent during October, the fourth monthly loss in 1985. Agriculture output fell 11.9 percent, while nonagriculture activity inched forward a meager 0.3 percent.

The nonfarm component of the state economy fared somewhat better than the ag sector. The level of manufacturing activity declined two consecutive months; October 1985 ouput fell 0.9 percent, following a 1.2 percent decrease during September. October construction output grew 0.6 percent after a string of four consecutive monthly losses. Output for the distributive sector rose 0.5 percent in October, while the government component registered a monthly increase in economic activity of 1.1 percent.

On a seasonally adjusted basis, Nebraska cash farm marketings declined $42 million during October 1985. State cash receipts, however, were up $227 million from October 1984 marketings, an increase of 50 percent. Nebraska's index of agriculture prices received rose 4.7 percent from the previous month, but registered a loss of 8.4 percent from the October 1984 index level. During October, the U.S. index of farm prices received was up 1.8 percent; it has dropped 11.2 percent since October 1984.

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes--see Table 5, page 5.

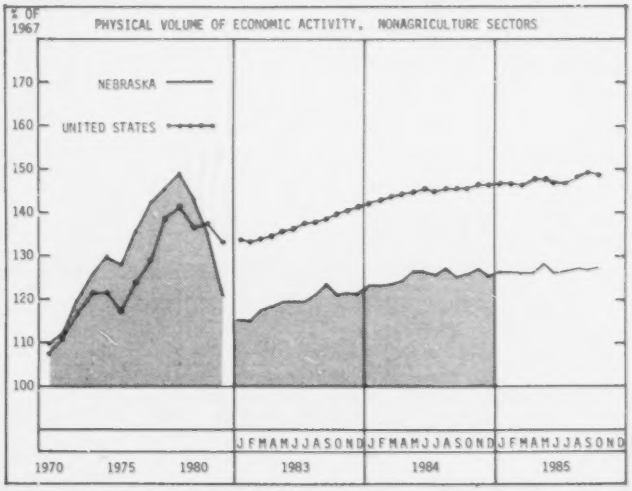
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

October 1985	Current Month as Percent of Same Month Previous Year		1985 to date as percent of 1984 to date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	109.5	105.3	105.2	105.7
Agricultural	161.5	104.2	107.3	99.3
Nonagricultural	104.6	105.3	104.9	105.8
Construction	95.4	109.3	94.4	109.6
Manufacturing	98.6	98.6	99.9	100.2
Distributive	105.9	107.1	105.5	107.4
Government	110.2	107.0	112.8	106.8
Physical Volume	109.0	102.6	104.3	102.8
Agricultural	176.4	117.3	121.2	111.2
Nonagricultural	101.6	102.2	101.5	102.6
Construction	93.5	107.2	91.8	106.6
Manufacturing	98.9	98.1	100.3	99.8
Distributive	102.6	103.7	101.9	103.7
Government	103.5	102.0	104.5	101.8

2. October 1985 CHANGE FROM 1967

Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	382.9	451.0
Agricultural	368.4	353.8
Nonagricultural	384.9	454.2
Construction	275.5	463.1
Manufacturing	360.3	319.2
Distributive	394.9	525.8
Government	439.3	465.6
Physical Volume	132.0	148.3
Agricultural	161.6	153.8
Nonagricultural	127.4	148.1
Construction	77.2	129.7
Manufacturing	145.4	125.0
Distributive	121.3	161.5
Government	155.4	152.8

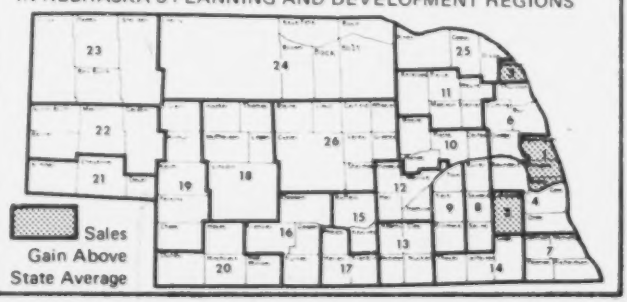


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	Oct. 1985 as percent of Oct. 1984	Oct. 1985 as percent of Oct. 1984	1985 to date as percent of 1984 to date
The State	100.9	100.7	99.7
1 Omaha	106.2	106.3	105.4
Bellevue	95.8		
Blair	119.4		
2 Lincoln	102.0	102.7	103.7
3 So. Sioux City	103.8	96.8	100.2
4 Nebraska City	98.5	96.6	96.3
6 Fremont	103.4	93.4	95.2
West Point	95.8		
7 Falls City	98.7	98.3	95.2
8 Seward	105.5	101.9	93.5
9 York	99.6	96.2	93.7
10 Columbus	70.7	78.0	90.9
11 Norfolk	90.6	93.4	93.8
Wayne	87.5		
12 Grand Island	90.9	91.0	94.4
13 Hastings	83.3	86.3	91.3
14 Beatrice	112.9	108.0	96.1
Fairbury	113.4		
15 Kearney	96.0	95.6	93.4
16 Lexington	92.2	87.2	90.4
17 Holdrege	87.8	89.3	88.3
18 North Platte	102.3	98.0	92.3
19 Ogallala	117.6	108.1	92.1
20 McCook	96.4	92.3	94.5
21 Sidney	106.3	101.4	98.2
Kimball	98.2		
22 Scottsbluff/Gering	105.4	105.2	99.0
23 Alliance	99.9	99.1	97.7
Chadron	103.7		
24 O'Neill	90.1	95.9	91.7
25 Hartington	87.4	99.3	91.6
26 Broken Bow	97.7	93.1	92.0

[1]See region map below.
[2]Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1985 YEAR TO DATE AS PERCENT OF 1984 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



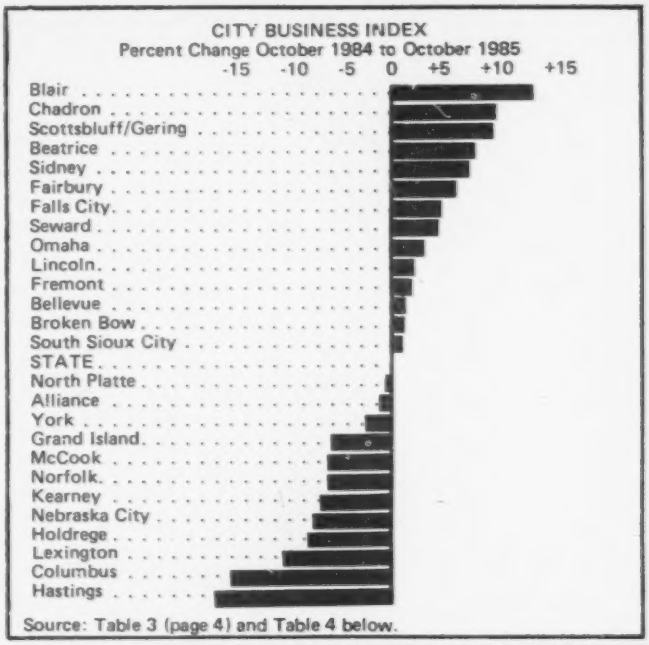
(continued from page 4)

Nebraska total dollar volume retail sales increased 0.7 percent during October 1985 compared to October 1984 sales. The gain in total retail sales was due primarily to a 0.9 percent rise in unadjusted nonvehicle sales. When adjusted for price changes, however, total nonvehicle retail sales slumped 0.8 percent during October. During September 1985, motor vehicle sales increased 21.7 percent from the sales level of September 1984. In a quick reversal, dollar volume motor vehicle sales fell 0.5 percent in October. The September weakness in state retail sales improved in October, with thirteen of the cities listed in Table 3 registering sales above the level of October 1984.

Fourteen of the twenty-six cities listed recorded positive changes in the business activity index from year earlier levels. There was no change statewide in the level of business activity, an actual improvement since this index value has been negative for several months. Spurred by a 19 percent growth in retail sales, Blair led the city gainers with a 12.5 percent increase in business activity. Chadron and Scottsbluff/Gering experienced jumps of 9.4 percent and 9.1 percent. Beatrice, Sidney, Fairbury, Falls City, and Seward registered gains in business activity of 4.0 to 8.0 percent. Nebraska's metro areas recorded smaller increases in business activity; Omaha reported a 2.7 percent rise, followed by Lincoln with a 1.7 percent increase, and South Sioux City with a 0.7 percent jump. Other cities with October gains in business activity were Fremont, Broken Bow, and Bellevue.

For two months, the Nebraska composite index of leading economic indicators has increased; the index gained 0.9 percent during November 1985. The total magnitude of the October and November increases in the leading index exceeds 1.0 percent, a larger upswing than has occurred since the end of 1983. Four of the five component indicators registered improvements on a seasonally adjusted basis, leading to the November increase in the composite index. Construction activity was down in November, but not enough to have a significant impact on the index value. The magnitude of the October and November increases in the leading index signals the likelihood of an upturn in economic activity around midyear 1986. The coincident index shows the Nebraska economy to be in a holding pattern. State economic activity peaked the first quarter of 1985 and remained virtually flat during the remainder of the year. Significant increases in November and December unemployment suggest the state economy will move downward or at best remain flat until around the middle of 1986. The current downturn or plateau began early in 1985, but is not deep enough to be classified as a recession.

CHARLES L. BARE



Source: Table 3 (page 4) and Table 4 below.

4. October 1985 — CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	100.1	107.6	103.5
Alliance	98.6	94.5	107.4
Beatrice	99.9	168.2	101.1
Bellevue	100.8	196.2	111.2
Blair	100.8	250.9	104.0*
Broken Bow	101.0	155.8	97.1
Chadron	97.9	704.6	130.0
Columbus	96.7	89.9	104.4
Fairbury	100.5	111.7	108.1
Falls City	101.1	294.9	103.4
Fremont	101.2	105.7	101.2*
Grand Island	100.0	70.7	105.2
Hastings	100.1	15.4	113.9
Holdrege	101.1	56.9	113.7
Kearney	99.7	37.1	102.1
Lexington	99.3	27.1	98.8
Lincoln	99.9	139.7	105.8
McCook	100.0	41.9	104.1
Nebraska City	100.2	24.9	103.4
Norfolk	99.9	71.4	91.0
North Platte	100.2	89.6	111.3
Omaha	100.8	109.5	103.3
Scottsbluff/Gering	100.7	446.2	92.7
Seward	100.5	162.9	100.5*
Sidney	99.9	277.2	122.9
So. Sioux City	99.6	99.8	113.6
York	99.8	64.7	96.4

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES

October 1985	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	325.5	103.2	103.5
Commodity component	287.9	101.7	102.1
Wholesale Prices	308.0	99.5	99.4
Agricultural Prices			
United States	230.0	88.8	89.4
Nebraska	228.0	91.6	89.2

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

FIGURE 2
Year of Highest Census

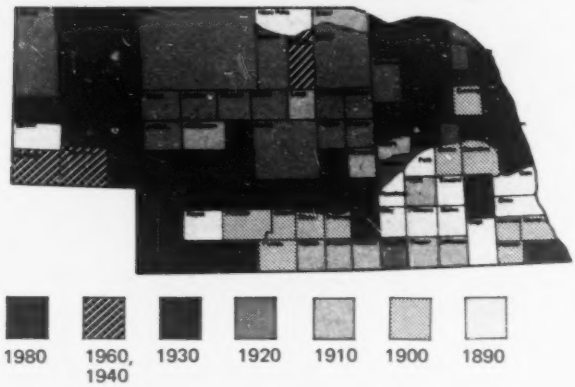
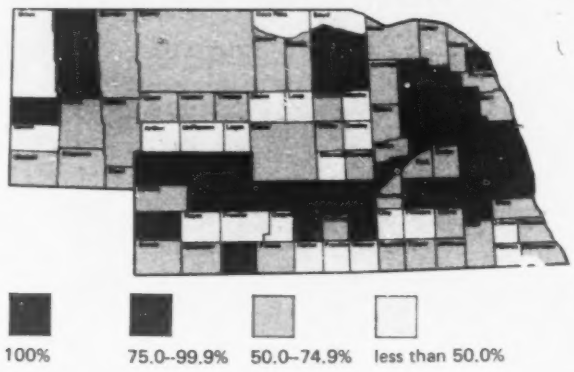


FIGURE 3
1980 Census as a Percent of Highest Census



(continued from page 3)

tion, many of these counties were along routes for other Western development and some of their population may have been temporarily located in the area while waiting to move further west. These counties also lost considerable population during the 1930s. Another reason for their continued decline (as a group) is their relatively high reliance on agriculture. As agriculture changes, with fewer farms and fewer farmers, economic opportunities lie outside the area. Transportation also has been a factor, as most of the counties with below peak populations lie outside of the state's major transportation routes, either railroads or highways.

Although the reasons for their decline may be speculative, the results of declining populations are more obvious. For many of Nebraska's counties, especially those with 1980 populations 75 percent or less than their highest census, the age structure has been altered dramatically. Decade after decade, these counties have lost young people through outmigration. As a result, the resident population is older, with median ages in the high 30s and 40s, and 20 percent or more of the population older than 65. This has led to fewer births, declining school enrollments, and, in some instances, a natural decline in population (that is, more deaths than births in a year). In addition to an older population, other effects of a decline include aging and vacant housing units.

The economic structure of these counties also has changed. With an older population, less income is earned from current labor and more comes from transfer payments such as social security and from interest, dividends, and rents. In fact, social security income is larger than net farm income in many Nebraska counties.

In summary, most Nebraska counties have faced decades of population loss with adverse demographic and economic consequences. The continued loss of population during the 1980s and 1990s may have more severe results because the population and economic bases have diminished over the decades. As a result, the viability of small communities in these counties is questionable.

Currently, considerable attention in the state is focused on economic diversification and economic development. Given the above, it appears that without change, the prospect for a sizable number of Nebraska counties is continued loss of population. Even if a turnaround occurs, however, it is highly unlikely that the majority of Nebraska counties will be able to surpass their populations of a half century ago.

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THE IMPACT OF SPENDING SHIFTS ON TAXABLE SALES

This article examines the impact of inflation and changing consumer expenditure patterns on consumer expenditures that are subject to Nebraska's sales and use taxes (hereafter referred to as sales taxes).

CONSUMER EXPENDITURE SURVEY DESCRIPTION

The U.S. Bureau of Labor Statistics periodically examines how households allocate their expenditures among alternative components. The data are used to determine how much weight should be given to each expenditure component in the Consumer Price Index. The weight that a particular item's price change receives in the calculation of the overall inflation rate is related directly to household expenditures for that particular item. In the past, the Bureau of Labor Statistics conducted a consumer expenditure survey about every ten years. The last of these periodic surveys was conducted in 1972 and 1973 and is the basis of the weights in the current Consumer Price Index. Data collection for a new consumer expenditure survey began in 1980. The new survey is ongoing, with rotating panels of respondents participating over time. The continuous flow of data substantially enhances the usefulness of this survey by providing more timely and detailed information on consumption patterns of households.

The survey consists of two components: 1. a diary or record keeping survey completed by households participating for two consecutive one-week periods, and 2. an interview survey in which the expenditures of consumer units are obtained in five interviews conducted every three months.

Independent samples are used for the interview and diary surveys. During the year, 5,000 consumer units are sampled for the diary survey, while the interview sample is selected on a rotating panel basis targeted at 5,000 consumer units per quarter. The data are collected on an ongoing basis in 85 areas of the country.

The interview survey contains questions concerning expenditures which respondents can be expected to recall for a period of three months or longer. These include relatively large expenditures such as automobiles and major appliances. The interview survey also includes questions about expenditures that occur on a regular basis such as rent, utilities, or insurance premiums. An estimate of total spending for food is included, while expenditures for nonprescription drugs, household supplies, and personal care items are excluded. About 95 percent of total household expenditures are covered in the interview survey.

The diary survey is designed to obtain expenditures on small, frequently purchased items which are normally difficult for respondents to recall. Detailed records are kept for food at home, food at eating places, tobacco, and those items identified above that are excluded from the interview survey.

Consumer expenditure survey results for 1972/73 and for 1982/83 are examined to determine the impact of changing consumer expenditure patterns on the share of consumer expenditures that are subject to Nebraska sales tax. The interview survey results are supplemented with diary expenditure estimates for omitted items to form the database.

SALES TAX REVENUE CHANGE

The change in sales tax revenues between any two periods is due to changes in the sales tax rate, changes in the prices of items, and changes in the quantities of items purchased:

$$S_t - S_o = \sum_{i=1}^{n} s_{it} E_{it} - \sum_{i=1}^{n} s_{io} E_{io}$$

$$= \sum_{i=1}^{n} (P_{io} s_{io} \Delta Q_i + \Delta P_i Q_{io} s_{io} + \Delta P_i \Delta Q_i s_{io} + \Delta s_i P_{io} Q_{io}$$

$$+ P_{io} \Delta Q_i \Delta S_i + \Delta P_i Q_{io} \Delta s_i + \Delta P_i \Delta Q_i \Delta s_i)$$

where:

S_t is the sales tax revenue in period t,
s_{it} is the sales tax rate on the i^{th} item in period t,
E_{it} is the expenditure on the i^{th} item in period t,
$E_{it} = P_{it} Q_{it}$,
P_{it} is the price of the i^{th} item in period t,
Q_{it} is the quantity of the i^{th} item purchased in period t.

The subscripts o and t refer to different points in time with o designating the base period, and the delta (Δ) indicating the change in the corresponding variable between the periods o and t.

The equation indicates that change in sales tax revenues between two periods depends on change in the price of each item purchased, change in the quantity of each item purchased, and change in the sales tax applied to each item. This article examines how changes in prices and changes in expenditure patterns affect taxable sales. The impacts of changes in the tax rate and tax structure are not examined.

(continued on page 2)

TABLE 1
Expenditures and Taxable Expenditures 1972/73 and 1982/83
(Taxable Expenditures Based on Current Sales and Use Taxes)

	(1) 1972/73 Average U.S. Expenditures	(2) 1982/83 Average U.S. Expenditures	(3) 1972/73 Taxable Expenditures	(4) 1982/83 Taxable Expenditures	(5) Percent of 1982/83 Expenditures that are Taxable[1]	(6) Percent Increase in Expenditures 1972/73 to 1982/83[2]	(7) Percent of Total Taxable Expenditures 1972/73[3]	(8) Percent of Total Taxable Expenditures 1982/83[4]
Food at home	1,303.0	2,165.6	0.0	0.0	0.0	166.2	0.0	0.0
Food away from home	354.0	917.2	329.1	852.6	93.0	259.1	10.1	12.9
Alcoholic beverages	89.0	286.5	89.0	286.5	100.0	321.9	2.7	4.3
Housing	2,771.2	6,020.0	1,255.2	2,726.7	45.3	217.2	38.6	41.1
Apparel	719.0	1,029.1	653.7	935.6	90.9	143.1	20.1	14.1
Vehicle purchases	705.0	1,383.2	705.0	1,383.2	100.0	196.2	0.0	0.0
Gasoline	401.0	1,060.4	0.0	0.0	0.0	264.4	0.0	0.0
Other vehicle expense	540.0	1,036.6	160.6	308.3	29.7	192.0	4.9	4.7
Public transportation	106.0	222.7	0.0	0.0	0.0	210.1	0.0	0.0
Health care	491.9	916.8	69.5	129.6	14.1	186.4	2.1	2.0
Entertainment	366.0	880.8	367.7	839.1	95.3	228.2	11.3	12.7
Personal care	255.8	403.8	150.9	238.2	59.0	157.8	4.6	3.6
Reading	50.0	127.2	14.3	36.4	28.6	254.4	0.4	0.5
Education	119.0	257.3	17.0	36.8	14.3	216.2	0.5	0.6
Tobacco and smoking supplies	130.0	207.8	130.0	207.8	100.0	159.8	4.0	3.1
Miscellaneous	103.0	280.0	10.9	29.7	10.6	271.8	0.3	0.4
Contributions	376.0	602.5	0.0	0.0	0.0	160.2	0.0	0.0
Life, endowment, annuities	370.0	249.4	0.0	0.0	0.0	67.4	0.0	0.0
Retirement and pensions	474.0	1,545.1	0.0	0.0	0.0	326.0	0.0	0.0
TOTAL	9,743.9	19,592.0	3,248.0*	6,627.3*	33.8*	201.1	100.0	100.0

[1](Column (4)/Column (2)) * 100
[2](Column (2)/Column(1)) * 100
[3](Column (3)/total taxable expenditures) * 100
[4](Column (4)/total taxable expenditures) * 100
*Vehicle purchases are not included in the total since the tax revenues do not go to the general fund

(continued from page 1)

The equation above can be applied to a particular household to determine the change in the sales tax paid by that household, or the equation can be applied to expenditures of all households. The survey data used are U.S. average household expenditures. An assumption of this article is that expenditure patterns of Nebraska households are similar to U.S. expenditure patterns.

EXPENDITURE COMPARISONS 1972/73 AND 1982/83

Columns (1) and (2) of Table 1 show U.S. average annual household expenditures for the years 1972/73 and 1982/83 respectively. Although the survey collected expenditures for each of hundreds of detailed item categories, the results have been aggregated into nineteen components in Table 1.

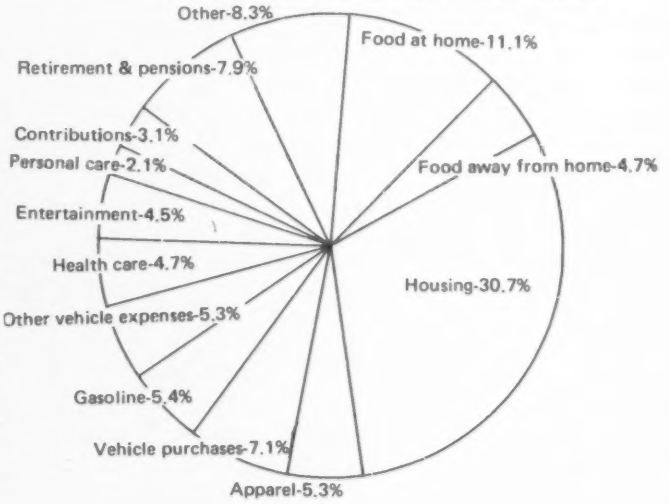
Figure 1 shows each component's share of 1982/83 total household expenditures. Housing made up 30.7 percent of total 1982/83 expenditures. The three categories of motor vehicle expenses combined made up 17.8 percent (= 5.3 + 5.4 + 7.1), while food at home accounted for 11.1 percent. Each of the other categories was less than 10 percent of the total. These expenditure component shares will be compared with each component's contribution to taxable expenditures.

Columns (3) and (4) show the expenditures in 1972/73 and 1982/83 that would have been taxable under the current (1986) Nebraska sales tax structure. The sales tax structure is held constant to see the impact of shifts in expenditure patterns on the portion of expenditures that are taxable.

The 1982/83 expenditures for taxable items in each of the components in Table 1 were identified and summed. Column (5) shows the percent of 1982/83 expenditures for each component that was subject to the sales tax. Resources did not permit a similar detailed examination of 1972/73 data. Instead, percentages in column (5) were multiplied by the 1972/73 expenditures in column (1) to arrive at the estimates of 1972/73 taxable expenditures shown in column (3). Hence, comparisons between columns (3) and (4) capture the effects of expenditure shifts among the nineteen categories, but do not measure the effects of shifts between taxable and nontaxable items within categories. It should be noted that expenditure shifts within categories that are either all taxable or all not subject to tax (0 or

(continued on page 3)

FIGURE 1
Distribution of U.S. Household Expenditures 1982-85



(continued from page 2)

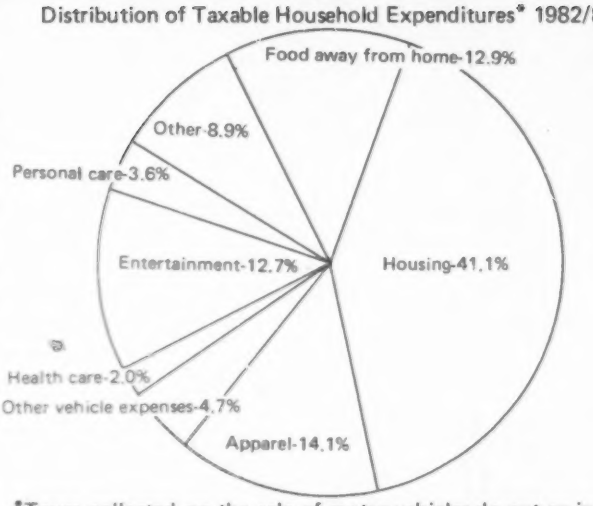
or 100 respectively in column (5)) are of no concern, since there can be no change in taxable expenditures.

Table 1 provides an instructive portrait of the household sources of general fund sales tax revenues. Column (8) shows the share of 1982/83 total taxable retail sales that are attributable to households, assuming that the 1982/83 U.S. average household expenditure patterns reflect Nebraska expenditure patterns. These shares are derived from column (4). We see from column (8) that taxable housing expenditures were responsible for 41.1 percent of total sales tax revenues. Taxable items within the housing component include utilities, furnishings, maintenance items, and others. Although not shown separately, utilities account for more than half of the housing component's contribution to taxable sales. An obvious conclusion is that because of the importance of utility expenditures, variation in weather over time can introduce fluctuations in sales tax revenues.

Column (8) is shown in Figure 2. We can see that food away from home, apparel, and entertainment are other major contributors to sales tax revenues. A comparison of Figures 1 and 2 indicates that while housing makes up 30.7 percent of total expenditures, it contributes 41.1 percent of total taxable household expenditures. More striking are the comparisons for food away from home, apparel, and entertainment. Each of these components' share of total taxable expenditures is well over two times its share of total expenditures. These components assume an important role because most of the items within these components are taxable, while other components have a smaller share of taxable items or are not taxed at all.

Column 7 of Table 1 provides estimates of the share of taxable expenditures given the 1972/73 expenditure patterns and the 1986 sales tax structure. This column is displayed in Figure 3. A comparison of Figures 2 and 3 indicates how changes in expenditure patterns have affected the sources of sales tax revenues. The

FIGURE 2
Distribution of Taxable Household Expenditures* 1982/83



*Taxes collected on the sale of motor vehicles do not go into the general fund and are not included in this diagram

contribution of apparel expenditures is significant. Taxable apparel expenditures as a share of total taxable expenditures declined from 20.1 percent to 14.1 percent between 1972/73 and 1982/83. This is because expenditures for apparel rose much slower than total household expenditures over the period. Column (6) shows that apparel expenditures increased by 143 percent, while total expenditures expanded 201 percent.

A comparison of Figures 2 and 3 also indicates that, aside from changes in expenditures for apparel, expenditure shifts have been toward those components that currently make up the largest shares of taxable expenditures. Under 1986 sales tax law, 38.6 percent of the total taxable expenditures would have been attrib-

(continued on page 6)

TABLE 2
Price Changes 1982/83 to 1985

	Official North Central CPI			Annual Average
	Average 1982-1983	Average 1985	Percent Change 1985-82/83	Taxable Household Expenditures 1982/83
All items	159.5	173.7	8.90	
Food	144.9	153.4	5.90	
Food away from home	149.7	163.1	8.99	852.56
Alcoholic beverages	139.8	147.8	5.76	286.52
Housing	171.7	187.2	9.06	
Maintenance and repair commodities	137.0	141.7	3.47	67.62
Fuel and other utilities	175.8	194.9	10.86	1,458.77
Household furnishings and operations	135.8	144.2	6.19	
House furnishings	128.2	132.2	3.16	761.26
Housekeeping supplies	148.5	163.9	10.41	282.88
Apparel and upkeep	121.7	127.9	5.14	
Apparel commodities	117.6	122.6	4.25	935.64
Transportation	164.5	176.9	7.57	
New vehicles	133.4	145.3	8.92	764.06
Used cars	183.4	222.4	21.26	503.62
Motor fuel	198.9	193.6	-2.64	
Maintenance and repair	151.0	162.2	7.45	284.56
Health care	162.3	188.5	16.14	
Medical care commodities	153.3	183.5	19.70	129.59
Entertainment	139.7	150.0	7.41	839.11
Tobacco products	159.1	191.4	20.30	207.84
Personal care	140.5	152.7	8.68	
Toilet goods and personal care appliances	253.4	278.5	9.93	238.19
Personal and educational expenses	168.1	205.6	22.34	
School books and supplies*	283.9	350.8	23.56	36.82

*These are national averages; not available on a regional basis.

Review and Outlook

Encouraging developments in the ag sector of the Nebraska economy were primarily responsible for the November 1985 expansion of real output. The physical volume index of the Bureau of Business Research indicates an October-to-November increase of 0.9 percent in total economic activity, a turnaround from the revised October 1.8 percent decline in real output. Economic activity in the agriculture sector advanced 4.8 percent. Modest gains in output for the distributive and manufacturing components added 0.2 percent to nonag economic activity.

Nebraska cash farm marketings, according to the U.S. Department of Agriculture, totaled $947.0 million in November 1985 ($748.6 million when seasonally adjusted); this represents the highest level of reported cash receipts in over two years. Seasonally adjusted Nebraska cash farm marketings increased 29.0 percent in November, measuring 21.3 percent above November 1984 receipts. In comparison, adjusted cash farm marketings nationwide rose 4.5 percent in November and expanded 4.4 percent from the level of November 1984 cash receipts. The index of prices received by Nebraska farmers moved up 5.3 percent in November, but remains 5.1 percent below the index level of November 1984. At the national level, the farm price index grew 3.5 percent during November.

Compared on a year-to-year basis, dollar volume net taxable retail sales fell 0.9 percent during November 1985 to $735.7

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

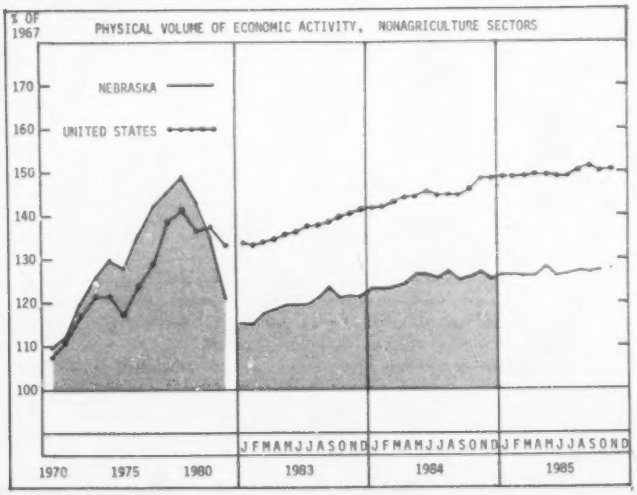
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

November 1985	Current Month as Percent of Same Month Previous Year		1985 to date as percent of 1984 to date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	109.0	104.8	105.6	106.7
Agricultural	135.0	104.6	109.6	99.9
Nonagricultural	105.7	104.8	105.0	106.8
Construction	90.5	111.2	94.1	109.6
Manufacturing	97.2	96.9	99.6	99.9
Distributive	105.6	106.6	105.5	109.3
Government	124.5	107.4	113.9	106.1
Physical Volume	105.7	101.9	104.4	103.8
Agricultural	142.3	112.1	123.0	111.4
Nonagricultural	100.4	101.6	101.4	103.6
Construction	88.4	108.8	91.4	106.5
Manufacturing	97.2	97.3	100.0	99.6
Distributive	101.9	102.9	101.9	105.6
Government	102.4	102.4	104.3	101.9

2. November 1985 CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	390.0	459.1
Agricultural	408.4	375.3
Nonagricultural	387.0	461.8
Construction	259.3	463.6
Manufacturing	365.1	317.6
Distributive	398.2	541.1
Government	440.2	465.9
Physical Volume	133.2	150.7
Agricultural	170.2	157.7
Nonagricultural	127.6	150.4
Construction	72.2	129.1
Manufacturing	146.2	125.3
Distributive	121.9	165.7
Government	154.9	153.6

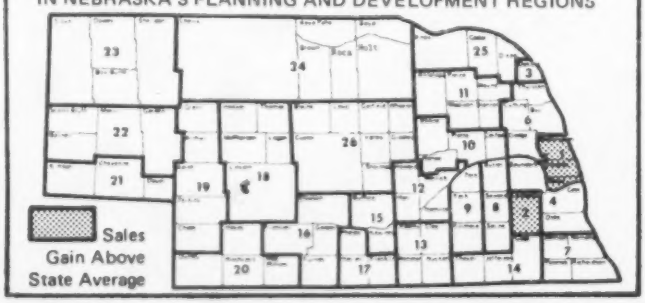


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

November 1985 Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	Nov. 1985 as percent of Nov. 1984	Nov. 1985 as percent of Nov. 1984	1985 to date as percent of 1984 to date
The State	101.2	99.1	99.6
1 Omaha	102.2	101.0	105.0
Bellevue	103.3		
Blair	108.2		
2 Lincoln	106.4	103.2	103.7
3 So. Sioux City	99.2	93.6	99.6
4 Nebraska City	99.8	99.2	96.5
6 Fremont	103.3	94.9	95.1
West Point	97.9		
7 Falls City	97.3	94.1	95.1
8 Seward	103.6	98.8	94.0
9 York	99.4	93.1	93.7
10 Columbus	98.8	97.8	91.5
11 Norfolk	96.4	93.0	93.8
Wayne	97.9		
12 Grand Island	96.3	94.3	94.4
13 Hastings	89.4	89.2	91.2
14 Beatrice	105.4	102.7	96.7
Fairbury	109.7		
15 Kearney	100.0	97.9	93.8
16 Lexington	94.0	86.5	90.1
17 Holdrege	87.2	87.5	88.2
18 North Platte	100.7	97.6	92.8
19 Ogallala	97.9	85.5	91.5
20 McCook	95.8	93.1	94.4
21 Sidney	102.2	99.7	98.3
Kimball	99.5		
22 Scottsbluff/Gering	106.6	101.9	99.3
23 Alliance	101.4	101.4	98.1
Chadron	127.1		
24 O'Neill	87.7	89.3	91.5
25 Hartington	97.9	98.2	92.2
26 Broken Bow	100.0	92.2	92.0

[1] See region map below.
[2] Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1985 YEAR TO DATE AS PERCENT OF 1984 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



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million. Although nonvehicle sales were up 1.2 percent, motor vehicle sales registered a sharp decline of 17.8 percent. When inflation is taken into account, total net taxable retail sales dropped 2.8 percent during November. Although retail sales were soft statewide in November, several cities reported increases in nonvehicle sales well above the state jump of 1.2 percent. Nationally, retail sales continued to exhibit strength with a year-to-year gain of 5.1 percent (+2.8 percent when adjusted for inflation).

The latest available data (December 1985) for employment, building activity, and power consumption are displayed in Table 4. November data, however, are used to compute the city business index. Statewide, total employment increased 2.5 percent from the employment level of December 1984. Of the 26 listed cities, Columbus was the only community registering a year-to-year decline in employment. Employment gains ranged from 0.3 percent at Alliance to 5.3 percent at Chadron.

For the second month in a row, statewide business activity remained unchanged. Twelve of the cities listed by the Bureau of Business Research registered positive changes in business activity during November 1985. Significant gains in building activity and retail sales vaulted Chadron to the top of the list with a strong 21.9 percent expansion in business activity. November growth in building elevated Scottsbluff/Gering (+8.0 percent). Blair (+6.9 percent), and Seward (+6.1 percent) toward the top of the list of Nebraska cities with positive changes in business activity. Lincoln and Omaha remain on the plus end of the business activity scale with respective increases of 4.2 percent and 0.7 percent. Other Nebraska cities with business activity advances were Beatrice, Bellevue, Fairbury, Falls City, Fremont, and Sidney.

The Nebraska composite index of leading economic indicators increased 1.5 percent in December 1985, the third consecutive advance and the largest. This reinforces previous expectations (BIN February 1986) of an upswing in state economic activity beginning around midyear 1986. With the farm economy in a state of distress, economic expansion is not likely to be strong. Expansion, however, should offer relief from current economic doldrums. On a seasonally adjusted basis, an unexpected increase in December construction activity (114.1 percent) and a decline in initial claims for unemployment insurance (-21.7 percent) contributed strongly to the rise in the leading index. Advanced data indicate that construction activity increased again in January. The stock price component and the index of prices received for all farm products remained virtually unchanged. Average weekly earnings in manufacturing dropped slightly.

CHARLES L. BARE

4. December 1985 — CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	102.5	104.6	98.4
Alliance	100.3	93.8	134.2
Beatrice	102.2	153.3	125.5
Bellevue	102.6	162.8	117.2
Blair	102.6	143.7	120.8
Broken Bow	104.0	0.0	153.2
Chadron	105.3	568.9	123.8
Columbus	97.9	593.8	145.1
Fairbury	104.1	105.2	179.3
Falls City	104.4	299.7	116.0
Fremont	104.6	111.4	116.7
Grand Island	102.6	49.8	63.6
Hastings	102.5	21.4	112.4
Holdrege	104.4	53.2	105.5
Kearney	102.2	109.0	114.1
Lexington	102.7	50.0	120.2
Lincoln	101.6	166.1	117.6
McCook	103.1	20.2	117.0
Nebraska City	102.9	65.9	124.9
Norfolk	102.5	71.6	123.8
North Platte	102.2	55.5	118.7
Omaha	102.6	95.4	122.9
Scottsbluff/Gering	103.4	212.2	112.9
Seward	103.2	439.7	128.2
Sidney	102.6	174.3	125.0
So. Sioux City	100.9	93.0	115.3
York	102.2	31.5	124.5

[1] As a proxy for city employment, total employment for the county in which a city is located is used.

[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

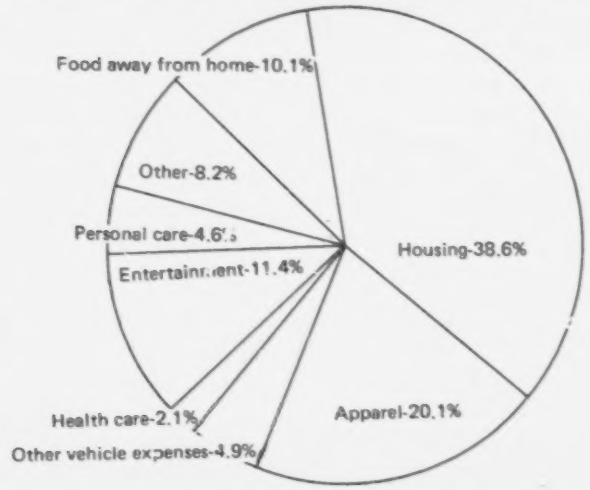
5. PRICE INDEXES

November 1985	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	326.6	103.6	103.6
Commodity component	289.2	102.2	102.1
Wholesale Prices	309.7	99.8	99.5
Agricultural Prices			
United States	238.0	93.3	89.8
Nebraska	240.0	94.9	89.7

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

FIGURE 3

Distribution of Taxable Household Expenditures* 1972/73



*Taxes collected on the sale of motor vehicles do not go into the general fund and are not included in this diagram

(continued from page 3)

uted to housing in 1972/73, compared to 41.1 percent in 1982/83. Similarly, food away from home's contribution would have increased from 10.1 percent to 12.9 percent and entertainment from 11.3 percent to 12.7 percent.

Another interesting finding from Table 1 is that the shift in expenditures among the components actually resulted in a slight increase in the share of expenditures that were subject to the sales tax. Between 1972/73 and 1982/83, average total expenditures moved from $9,744 to $19,592, for a 201.1 percent gain. Taxable expenditures rose from $3,248 to $6,627, for a 204.0 percent increase over the same interval. Hence, given the 1986 tax structure, the shift in consumer expenditure patterns actually favored taxable items. A 202.6 percent increase occurred when automobile sales were included among the taxable expenditures. Both changes are of interest, since automobile sales taxes do not go into the general fund.

Given the 1982/83 expenditures and 1986 tax structure, 33 percent (41 percent including vehicle sales taxes) of household expenditures were subject to the state sales tax.

Table 1 provides an estimate of the impact of expenditure shifts on taxable retail sales between 1972/73 and 1982/83. The expenditure shifts are due to changes in relative prices as well as changes in quantities. Although data are not available to examine more recent expenditure shifts, we can estimate the impact of price changes on taxable expenditures.

In Table 2, the impact of price changes on taxable retail sales is examined. The table indicates how sales tax revenues would have changed between 1982/83 and 1985 if households purchased the same quantities in 1985 as they did in 1982/83.

The first three columns of Table 2 show the percent change in the Consumer Price Index for the North Central region. The fourth column shows the taxable household expenditures within each component. We can see the price change that has occurred for taxable items by applying the price change for each expenditure component to the corresponding expenditure. Between 1982/83 and 1985, the percent change in prices for taxable expenditures (excluding vehicle purchases) was 8.3 percent. If vehicle purchases are included, the cost of taxable items increased 9.2 percent over the period. The official Consumer Price Index for all items rose 8.9 percent during the same time interval. These results show that the impact of inflation on general fund sales tax revenues from household expenditures is less than the official all items Consumer Price Index. One implication is that forecasts of general fund sales tax revenues that incorporate projections of the all items Consumer Price index may overestimate revenues.

SUMMARY OF FINDINGS

Changes in consumer expenditure patterns between 1972/73 and 1982/83 resulted in a slight increase in the percent of household expenditures that were subject to sales tax under 1986 law. One-third of household expenditures are subject to general fund sales taxes. Expenditures for housing, food away from home, apparel, and entertainment are major components of total taxable expenditures, although apparel's contribution declined significantly between 1972/73 and 1982/83. Following 1982/83, the inflation rate for taxable expenditures was lower than the official North Central all items Consumer Price Index change. A basic premise of these findings is that Nebraska household expenditure patterns are similar to the U.S. average expenditure patterns.

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THE FARM CREDIT CRISIS: WILL IT HURT THE WHOLE ECONOMY?

Some economists estimate that 5 percent or more of all farms currently in business will go into bankruptcy in 1986, and that one-farm in seven will fail within the next four years. A recent study by two agricultural economists estimates that farm lenders may write off as much as $50 billion in bad farm debt over the next four years, with $20 billion cited as the "most probable" loss estimate. (11,4,6)

Such projections of losses on farm loans may be high. Nevertheless, actual losses to date already have been large enough to cause a substantial increase in the failure rate among agricultural banks. Accounting for 22 percent of bank failures between 1981 and 1983, agricultural banks have made up about two-thirds of all failed banks since July 1984; 62 agricultural banks failed during 1985. Moreover, the Farm Credit System, a group of federally sponsored agencies that lends to farmers, announced this fall that it will need direct assistance from the federal government to stay in operation. (9,1)

Ordinarily, the failure of some farmers and some farm lenders need not attract more attention than we currently pay to the thousands of business firms that fail each year. For several reasons, however, the current farm debt situation has attracted special attention. First, projections of large losses concentrated in agriculture have created concern about the economic health of the entire industry. Moreover, the farm credit crisis has developed at a time when loan losses of commercial banks already are relatively high. Finally, the apparent vulnerability of the banking system to the farm credit crisis has increased public concern about the continued viability of many banks that have been heavily committed to agricultural lending. (14)

Some economists further believe that problems in the farm sector will spill over into the rest of the economy, causing slower economic growth and lower employment. One recent study suggested that bank failures resulting from losses on farm loans could cause investors to view investments in all privately issued securities as more risky. Consequently, interest rates on all privately issued securities could rise relative to the interest rates on U.S. Treasury securities, causing a slowing in economic growth. This article discusses reasons for thinking that this effect either will not occur or will be relatively insignificant. (11,3)

If the failure of large numbers of farms affects both interest rates and general economic activity adversely, then assisting the agricultural sector of the economy may make sense over and above the usual rationale based on the social benefits of maintaining the family farm. The magnitude of federal aid necessary to keep farm lenders viable, however, has been estimated to be in the "multi-billions" of dollars for the Farm Credit System alone. In light of current efforts to reduce the federal budget deficit, it seems prudent to assess the likelihood that the current financial problems of the farm sector will affect the whole economy adversely.

This article analyzes the influences of the current farm credit crisis on the economy in two ways. The first approach examines the performance of financial markets and the economy in recent years. Since the financial trouble of farmers became widespread after the average price of farmland started declining in 1981, we might expect to observe some adverse effects on the economy already. The second approach examines the effects of the farm financial crisis of the 1920s on the economic activity of that period.

THE ORIGIN AND EFFECTS OF THE CURRENT FARM CREDIT CRISIS

Today's farm crisis developed as a result of the rapid increases in the prices of farmland in the 1970s through 1981 and the subsequent declines in land prices since then. The 1970s and early 1980s were years of rapid inflation. From 1972 through 1981, the GNP deflator rose at an 8.1 percent average annual rate, while the CPI rose at a 9 percent average rate. The price of farmland rose even more rapidly; the average price of an acre of farm real estate rose at a 14.4 percent annual rate from 1972 to 1981.

Total farm debt rose in step with the rise in the prices of farmland. Movements in land prices and farm debt over this period were closely related for two reasons. First, many farmers who bought land while land prices were rising borrowed heavily to finance their purchases. Second, the rising land prices enabled farmers to pledge their land as collateral for general purpose loans.

Unfortunately for farmers, prices of farm commodities did not rise as fast as farmland prices. From 1972 through 1981, an index of prices received by farmers on all farm products rose at an 8.1 percent rate, equal to the general inflation index. Furthermore, most of the rise in the index of farm prices over these years was concentrated in 1973-74 and 1978-79. Prices received by farmers have not risen as rapidly as the GNP deflator since 1979. Thus,

(continued on page 2)

(continued from page 1)
during the years of rapid inflation, the price of farmland rose substantially faster than prices received by farmers for their output.

The general rate of inflation slowed sharply after 1981, making farmland ownership less valuable as an inflation hedge. In addition, the price of farm output relative to nonfarm prices has declined by 1.8 percent since 1981. For many farmers who borrowed heavily during the period of rapid increases in the price of farmland, prices received for farm products have not been high enough to cover their operating expenses and meet their loan payments. Consequently, farm lenders have begun incurring losses on the loans on which farmers have defaulted, and the protection of collateral for farm lenders has been eroded by falling farmland prices.

ONLY A MINORITY OF FARMERS HAVE FINANCIAL PROBLEMS

The "farm credit crisis" is concentrated primarily among a minority of the family-size commercial farms, which have annual sales of farm output between $50,000 and $500,000. About two-thirds of the family-size commercial farms have ratios of debt to assets below 40 percent; the USDA considers these farms to have no apparent financial problems. Moreover, these farms account for less than 30 percent of the debt held by medium-size farms. In contrast, about 14 percent of family-size commercial farms have debt-to-assets ratios of 70 percent or higher, and these account for over 30 percent of the debt. In total, about one-third of family-size commercial farms holds more than 70 percent of this farm category's debt and has debt-to-assets ratios that indicate some financial stress. It is this minority of farmers--and their lenders--who account for the problem debt. (2)

HAS THE FARM CREDIT PROBLEM AFFECTED THE ECONOMY IN RECENT YEARS?

The spread between the interest rates on commercial paper and Treasury bills--one measure of the spread between interest rates on private and public debt--appears to reflect a risk premium on privately issued debt. The spread was largest from 1980 through 1982, in recent history, which was essentially one continuous period of economic recession. This rate spread also widened for a few months around the time of the financial crisis at the Continental Illinois National Bank in May 1984, perhaps reflecting investors' concern about the possible consequences of failure by Continental Illinois.

There is little evidence, however, that the growing farm credit crisis since 1981 has had adverse effects on the economy. Real economic activity has been rising since late 1982. Moreover, the spread between the commerial paper rate and the Treasury bill rate generally has narrowed following the sharp rise in the failure rate among agricultural banks that began in the second half of 1984. In fact, since mid-1984, the spread between interest rates on private and public debt instruments of similar maturity has been as low as at any period since 1978. Thus, while this rate spread reflects a risk premium, the risk premium does not appear to be significantly correlated with problems in agriculture as suggested by studies warning of a general financial crisis.

ECONOMIC EFFECTS OF THE FARM FINANCIAL CRISIS IN THE 1920s

Since history frequently repeats itself, we may learn something by looking back to similar problems in an earlier era. The agricultural sector of the U.S. economy experienced a financial crisis during the 1920s that was similar in many respects to farmers' and farm lenders' current financial problems. To make this experience relevant for an analysis of the 1980s, we first examine some of the important similarities and differences between the farm crises of the 1920s and 1980s.

U.S. AGRICULTURE BEFORE WORLD WAR I

Agriculture accounted for much larger shares of employment and output in the U.S. economy before World War I than in the 1980s. In 1900, for example, about 41 percent of total employment was in the farm sector. The share of the labor force on farms was declining, falling to just under 30 percent by 1913. In contrast, the farm sector accounted for only 3 percent of civilian employment in 1981, the year of the recent peak in farmland prices. (14)

During the five years ending in 1901, the dollar value of farm output accounted for 23.5 percent of gross private domestic product. By the five years ending in 1921, that percentage declined to 14.5 percent. In contrast, farm output accounted for about 3 percent of gross private domestic product in 1981. These contrasts suggest that adverse developments in the farm sector should have had larger effects on the economy before World War I than in the 1980s.

The farm sector was the major export sector of the U.S. economy before the war, with farm exports accounting for 65 percent of the dollar value of all U.S. exports in 1901. That share of total exports declined gradually to 46 percent in 1913, but rose again to 48 percent in 1920. In 1981, agriculture products accounted for 18.6 percent of U.S. merchandise exports.

THE GROWING IMPORTANCE OF CREDIT FOR AGRICULTURE

Several developments made the availability of credit more important for farmers by the late 1800s than it had been in earlier U.S. history. In the early 1800s, homesteaders could obtain land and become farmers relatively cheaply. By the late 1800s, new farmers had to buy land from other landowners. Farming also became more capital-intensive as specialized machinery and buildings made farm operations more efficient.

Prior to World War I, farm mortgage credit was available from commercial banks, life insurance companies, individuals and others. The category of "individuals and others," which accounted for 75 percent of farm mortgage credit in 1910, included the farm mortgage loan companies that began operating in the late 1800s. Mortgage loan companies generally were funded by investors in the eastern states. These companies employed agents who worked in farm communities, accepted mortgage loan applications from farmers, and transmitted the loan applications to the mortgage companies for approval. (5,10)

(continued on page 3)

(continued from page 2)

Most farm mortgage loans had maturities of three to five years. Maturities of farm mortgage loans tended to be shortest at commercial banks; about half of these loans had maturities of one year or less. Shorter loan maturities made farmers more vulnerable to foreclosure by creditors. Although a farmer experiencing temporary financial distress ordinarily might be able to meet the payments on an outstanding mortgage loan, lenders might not renew the mortgage loan if it matured while a farmer was having a financial problem. (5,8,12,10)

Farmers turned their complaints about the terms of credit available to them into an important political issue by the early 1900s. Political initiatives by farmers resulted in the passage of the Federal Farm Loan Act of 1916, which established the Farm Credit Banks under the ownership and supervision of the federal government. That act also facilitated the development of joint-stock land banks, which were privately owned and managed firms that operated under the supervision of the federal government. These two categories of federally supervised lending institutions made most of their farm mortgage loans with maturities of 33 to 35 years. Federal Land Banks and the joint-stock land banks did not become major farm lenders until the 1920s. (10)

WORLD WAR I AND THE FARM FINANCIAL CRISIS OF THE 1920s

The farm financial crisis of the 1920s resulted from the response of the U.S. agricultural sector to the disruption to agricultural production that occurred in Western Europe during World War I. The nations of Western Europe increased their agricultural imports to replace lost production. This caused the dollar value of U.S. farm exports to rise sharply during the war and shortly thereafter. Prices of farm products and farmland rose sharply during these periods in response to the increase in foreign demand for U.S. farm products.

Farmers borrowed substantially during the war to buy land that was rising rapidly in value and to spend more on non-land inputs to expand production. Farm mortgage debt increased from $4.7 billion on January 1, 1914 to $10.2 billion on January 1, 1921. Non-real estate farm loans at commercial banks rose from $1.6 billion to $3.9 billion over the same period.

U.S. farm exports declined after the war, as farms in Western Europe resumed production. The decline in export demand for U.S. farm products contributed to a reduction in farm prices relative to prices of industrial commodities. This ratio of farm to nonfarm prices peaked in 1920, then declined sharply in 1921. The average price of farmland continued to rise through 1920, then declined in each subsequent year through 1928.

Declines in the prices of farm output and the value of farmland drove many farmers into bankruptcy and many agricultural banks into failure. From 1921 through 1929, an average of 635 banks failed per year, compared with an average of 88 bank failures per year over the previous 20 years.

Comparisons of the declines in prices of farm commodities and land in the 1920s with those of the 1980s show declines much more severe than what has been observed so far in the 1980s. First, the relative price of farm output declined more in the 1920s than in the 1980s. Second, there were sharper declines in farmland prices, the collateral base for farm debt, after 1920 than after 1981. Other things equal, these declines would have had much greater effects on the ability of farmers to secure new term debt or sustain old debt in the 1920s. Finally, with shorter maturities on most of the farm mortgage credit in the 1920s, the declines in farm prices and land values made farmers more vulnerable to foreclosure then than now. (10)

ECONOMIC ADJUSTMENTS TO THE FARM FINANCIAL CRISIS OF THE 1920s: IMPLICATIONS FOR THE 1980s?

As noted previously, agriculture's larger share of total output in the 1920s implies that problems in the farm sector would have had larger adverse effects on GNP and employment in the 1920s than in the 1980s. Yet the 1920s were years of general economic prosperity. Real GNP rose at a 4.2 percent annual rate from 1920 through 1929, up from an average of 3 percent annual growth over the prior 20 years. The number of persons employed grew at a 1.8 percent rate from 1920 through 1929, about the same rate as over the prior 20 years. Although general economic growth might have been even stronger without agriculture's problems, the actual economic performance certainly meets or exceeds most historical norms.

Declines in the prices of farm output and farmland in the 1920s also had relatively small effects on economic activity in the farm sector. Although farm output fell sharply in 1921, the index of overall farm output had regained its previous peak by 1925. Farm output rose at a 1.4 percent annual rate from 1925 through 1929, while real GNP rose at a 3.2 percent rate. Total employment in the farm sector essentially was unchanged in the 1920s; the growth of employment occurred in the nonfarm sector.

How could such a severe deflation in the farm sector, with widespread farm bankruptcies, have such small effects on farm output? The answer involves the process of bankruptcy in our capitalistic economic system. When farmers go bankrupt, their land and equipment do not go out of production; these resources instead are sold to other farmers at reduced prices. It is the lower prices that make it profitable for other farmers to buy the land and equipment even though prices for farm output are lower. Thus, through the process of bankruptcy, farm assets are repriced to levels low enough to make their continued use profitable for farmers.

Finally, if higher bank failure rates cause an increase in risk premiums on privately issued debt, this effect also should have been stronger in the 1920s than in the 1980s, especially since federal deposit insurance did not exist then. Despite the large number of bank failures during the 1920s, however, the spread between the commercial paper rate and the yield on short term Treasury securities did not widen during that decade. Thus, the financial distress in the ag sector of the economy did not seem to produce an increase in risk premiums on privately issued debt.

INDIVIDUAL BANK FAILURES VS. THE LIQUIDITY OF THE BANKING SYSTEM

The primary reason that the bank failures had such little influence on overall economic activity in the 1920s was that the

(continued on page 6)

Review and Outlook

The Nebraska composite index of leading economic indicators has been updated recently. Other data series have been tested as possible additions to, or replacements for, the original component indicators. As a result, the number of residential dwelling units under new contract has replaced the value of residential construction in the composite leading index. Other weighting schemes were tried, but equal weighting of component indicators was retained. Data revisions to component indicator series have been incorporated, and new seasonal factors have been computed using data through December 1985. Historically, the composite leading index has changed very little, except 1984 and 1985 data.

As illustrated in Figure 1, the Nebraska composite index of leading economic indicators increased sharply from October through December 1985. The more modest January gain in the leading index was due primarily to a large decline in seasonally adjusted initial claims for unemployment insurance and a rise in the number of residential dwelling units under new contract. The stock price index rose only slightly, while the index of prices received by Nebraska farmers for all agricultural products and average weekly earnings in manufacturing dropped. The recent upturns in the leading index signal improvement in the Nebraska economy in the near term. Table 6 presents the percent changes in the component indicators of the leading index for the past several months and February projections.

A considerable increase in real output for the agriculture component of the Nebraska economy was responsible for the

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

December 1985	Current Month as Percent of Same Month Previous Year		1985 to date as percent of 1984 to date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	109.4	106.3	105.9	106.7
Agricultural	140.7	114.7	112.3	101.2
Nonagricultural	104.8	106.1	105.0	106.8
Construction	89.5	114.2	93.7	110.0
Manufacturing	97.2	99.7	99.4	100.0
Distributive	107.2	107.5	105.7	109.2
Government	108.7	107.6	113.4	106.2
Physical Volume	108.2	103.2	104.7	103.8
Agricultural	149.5	121.0	125.3	112.3
Nonagricultural	101.4	102.6	101.4	103.5
Construction	87.8	111.9	91.1	106.9
Manufacturing	97.0	99.0	99.7	99.6
Distributive	103.4	103.6	102.0	105.4
Government	103.2	102.7	104.2	101.9

2. December 1985 CHANGE FROM 1967

Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	401.0	466.6
Agricultural	496.6	403.6
Nonagricultural	386.3	468.6
Construction	243.7	471.4
Manufacturing	352.1	322.1
Distributive	402.2	549.9
Government	441.9	469.3
Physical Volume	137.3	152.4
Agricultural	206.1	168.2
Nonagricultural	126.8	151.9
Construction	67.9	131.3
Manufacturing	140.7	125.7
Distributive	122.8	168.0
Government	154.8	153.7

5. PRICE INDEXES December 1985

	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	327.4	103.8	103.6
Commodity component	289.9	102.5	102.1
Wholesale Prices	310.2	100.1	99.5
Agricultural Prices			
United States	240.6	94.9	90.2
Nebraska	241.0	94.1	90.0

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

Table 4 and the City Business Indicators bar chart are omitted, as county employment statistics are not available.

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

December 1985 Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	Dec. 1985 as percent of Dec. 1984	Dec. 1985 as percent of Dec. 1984	1985 to date as percent of 1984 to date
The State	107.8	107.7	100.4
1 Omaha	114.9	114.5	106.0
Bellevue	108.6		
Blair	107.1		
2 Lincoln	111.7	111.2	104.4
3 So. Sioux City	97.9	96.0	99.3
4 Nebraska City	105.2	114.4	98.1
6 Fremont	104.8	103.5	96.0
West Point	109.8		
7 Falls City	92.9	99.5	95.5
8 Seward	115.2	120.6	96.3
9 York	122.4	116.4	95.6
10 Columbus	106.5	112.0	93.3
11 Norfolk	113.1	107.9	95.2
Wayne	103.3		
12 Grand Island	99.8	104.4	95.4
13 Hastings	104.3	105.2	92.5
14 Beatrice	113.5	109.6	97.9
Fairbury	106.7		
15 Kearney	99.8	102.7	94.7
16 Lexington	116.8	102.5	91.2
17 Holdrege	91.7	95.5	88.8
18 North Platte	112.4	110.0	94.4
19 Ogallala	92.3	92.9	91.6
20 McCook	105.8	101.6	95.1
21 Sidney	116.1	105.0	98.9
Kimball	97.9		
22 Scottsbluff/Gering	103.5	100.7	99.4
23 Alliance	99.0	111.1	99.3
Chadron	159.4		
24 O'Neill	101.2	102.1	92.5
25 Hartington	84.9	103.3	93.2
26 Broken Bow	101.3	101.9	93.0

[1]See region map below.
[2]Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1985 YEAR TO DATE AS PERCENT OF 1984 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS

(continued from page 4)

December 1985 rise in the Bureau of Business Research's physical volume index. On a monthly basis, total economic activity swelled 3.1 percent during December, the second consecutive monthly gain. Agriculture output expanded 11.9 percent, while the level of nonagriculture activity contracted 0.6 percent.

Compared to agriculture's growth in real output, the nonfarm sectors of the state economy performed unfavorably. The level of construction activity declined sharply, with December 1985 output dropping 6.0 percent, after falling 5.9 percent the previous month. December manufacturing output decreased 3.8 percent, and output for government declined 0.1 percent. The distributive sector registered the sole monthly increase in nonfarm economic activity of 0.8 percent.

On a seasonally adjusted basis, Nebraska cash receipts for farm marketings increased $87.9 million during December 1985 and were up $319.9 million from December 1984 receipts, an increase of 45.8 percent. Nebraska's index of agriculture prices received swelled 0.4 percent from the index value of the previous month during December, but dropped 5.9 percent from the December 1984 index level. During December, the U.S. index of farm prices received was up 0.9 percent, but has declined 5.1 percent since December 1984.

Compared to December 1984 sales, Nebraska total dollar volume net taxable retail sales increased 7.7 percent during December 1985. The growth in total retail sales was due to gains in both vehicle and nonvehicle sales. When adjusted for price changes, total sales rose 5.2 percent during December. The strength in December retail sales is illustrated further by Chart 1 and Table 3, with 23 of the 32 listed cities registering net taxable sales above the level of December 1984 sales.

CHARLES L. BARE

TABLE 6
Percentage Changes* in Seasonally Adjusted Component Indicators
of the Nebraska Composite Index of Leading Economic Indicators

Component Indicators	November 1985	December 1985	January 1986	February 1986***
Initial claims for unemployment insurance (inverted)**, Nebraska Department of Labor	+1.5	+9.9	+7.0	+3.4
Number of residential dwelling units--new construction contracts**, F.W. Dodge of McGraw Hill	+18.5	+31.8	+16.2	-12.2
500 common stocks Standard and Poor's Corporation	+5.9	+4.8	+0.4	+4.7
Prices received for all farm products, Nebraska Crop and Livestock Reporting Service	+3.8	-1.9	-2.6	-8.0
Average weekly earnings in manufacturing, Nebraska Department of Labor	+1.5	-1.0	-1.2	+2.6

*Percentage changes are computed to assure symmetrical treatment of positive and negative changes in the component indicators.
**Claims and dwelling units are smoothed using an unweighted 3 month moving average. Percentage changes in claims are inverted by multiplying by -1.
***Projected.

CHART 1
City Nonvehicle Retail Sales Percentage Change
December 1985 compared to December 1984

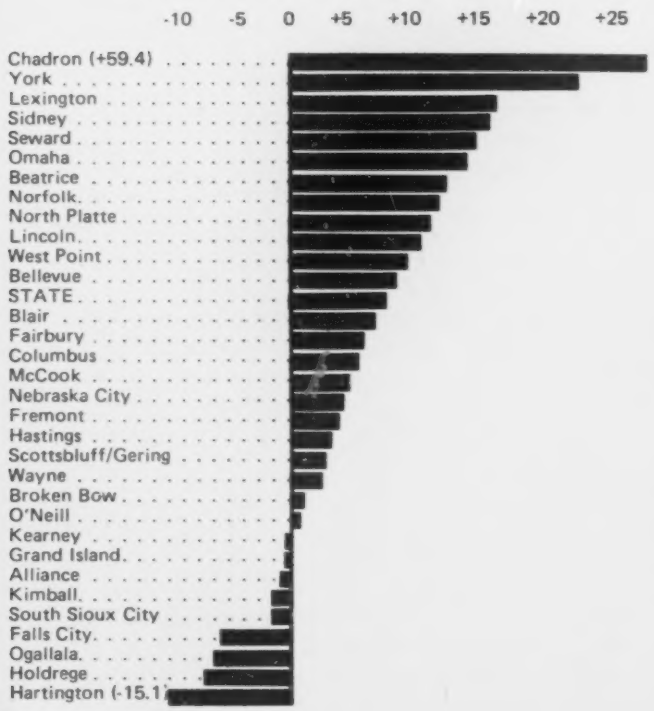
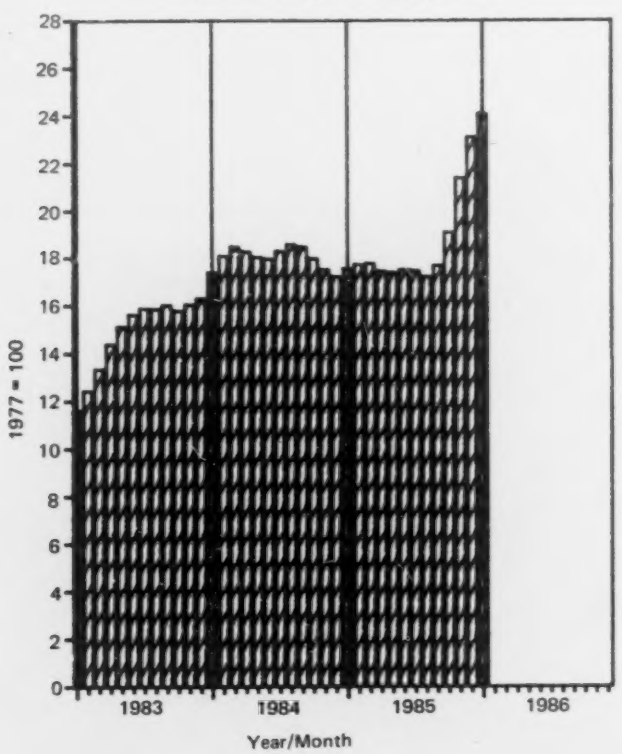


FIGURE 1
Nebraska Composite Leading Index



(continued from page 3)

money supply grew fast enough to support growth in economic activity and to forestall liquidity problems in the banking system as a whole. Deposits in the many failed banks were simply transferred to solvent banks, with no overall reduction in the money stock. Because the quantity of money is closely related to aggregate spending and economic activity, the growth in the money stock facilitated growth in overall economic activity. Although the money supply dropped sharply in 1921, during a recession after World War I, M1 (demand deposits plus currency) rose at about a 3 percent annual rate from June 1921 to June 1929. This increase facilitated the economic growth that occurred over that period, in sharp contrast to the beginning of the Great Depression (1930-1933), which saw the money stock decline at an 11 percent annual rate.(7)

CONCLUSIONS

Many farmers with high ratios of debt to assets will go bankrupt unless they receive large government subsidies. Some economists have warned that rising farm bankruptcies will cause the failure of many farm banks and possibly the Farm Credit System. Others even have suggested that farm loan losses are likely to produce a genuine financial crisis unless federal aid is provided.

The evidence presented in this article does not support the argument that the farm financial crisis will adversely affect the entire economy. The financial problems of many farmers have become serious since 1981 primarily because the average price of farmland has declined. The financial problems of farmers, however, have not increased the relative interest rates on all privately issued debt or slowed the growth of total output. Evidence from the 1920s, a period of similar crisis in the farm sector, indicates that the farm financial crisis of that decade also had no adverse effects on the interest rates on privately issued debt or on overall economic growth. If we want to rationalize government support for farmers with high debt-to-assets ratios, such support should be sought on other grounds.

MICHAEL T. BELONGIA
R. ALTON GILBERT

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BUSINESS IN NEBRASKA

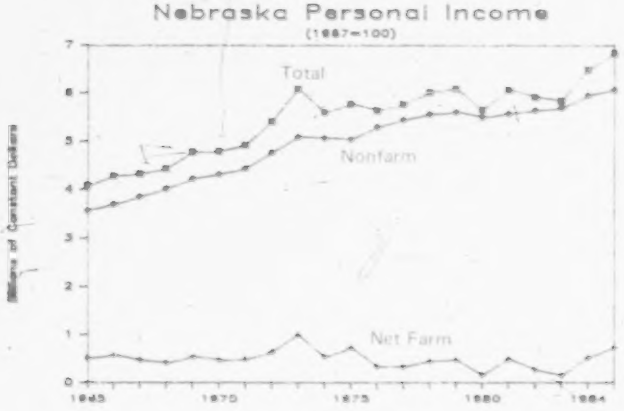
Prepared by the Bureau of Business Research, 200 College of Business Administration, University of Nebraska, Lincoln, NE 68588-0406, 402/472-2334

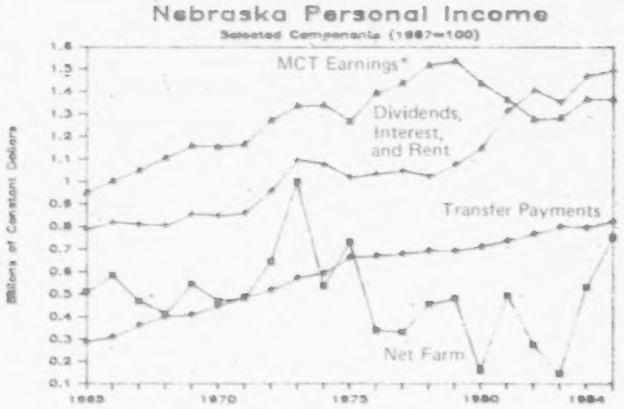
NEBRASKA COUNTY PERSONAL INCOME 1965-1984

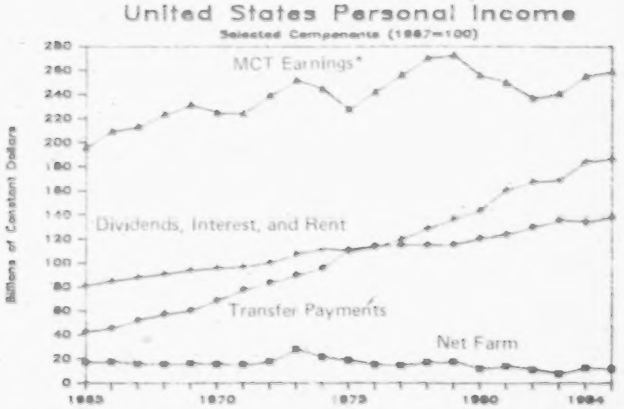
Each April the Bureau of Economic Analysis of the U.S. Department of Commerce releases personal income information for counties. Following is a review of some trends in income between 1965 and 1984 for the state, its metropolitan and non-metropolitan areas, and twelve of the state's largest counties. (These counties account for almost two-thirds of the state's income.)-Space limitations prevent the inclusion of all counties, but other counties are available upon request.

Personal income is income before taxes and consists of earnings (labor and proprietors' income); dividends, interest, and rent; and transfer payments (such as social security). Earnings are divided further into major industries such as farming, construction, manufacturing, etc. Data for counties are available only through 1984, but for illustrative purposes estimates for 1985 were derived based on the state total.

In reviewing the charts on this and the following pages, several general trends emerge. First, total personal income has shown moderate growth since 1965. Inflation-adjusted personal income grew without exception between 1983 and 1984; for most areas in this report, 1984's income was higher than any preceding year. Two conditions have led to lower growth of personal income in the last of the 1970s and 1980s. High levels of agricultural exports and prices in the early 1970s and their subsequent drop in later years led to a sharp peak in personal income in 1973. In



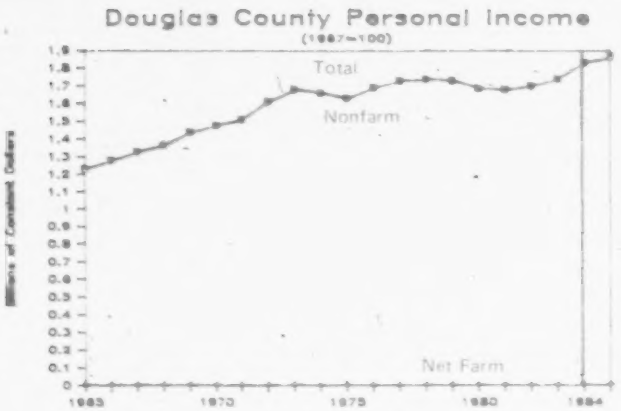


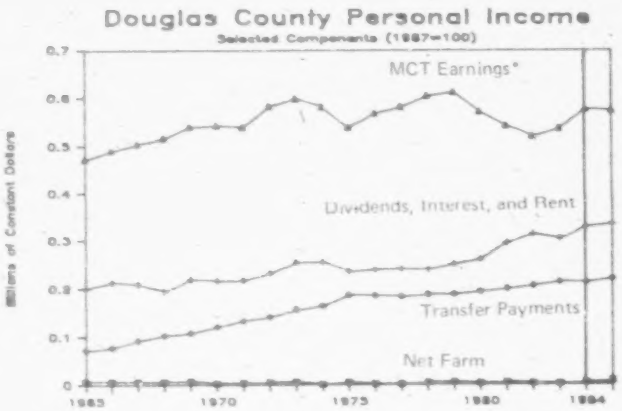


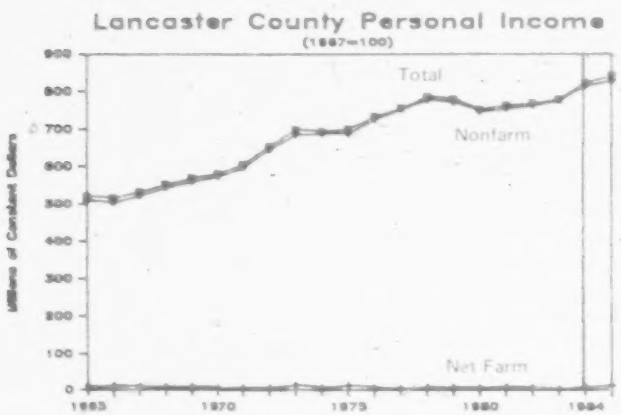
*Manufacturing, Construction, and Transportation and Public Utilities. 1985 values for counties are estimates based on state totals. Unpublished data from the Regional Economic Information System, U.S. Bureau of Economic Analysis.

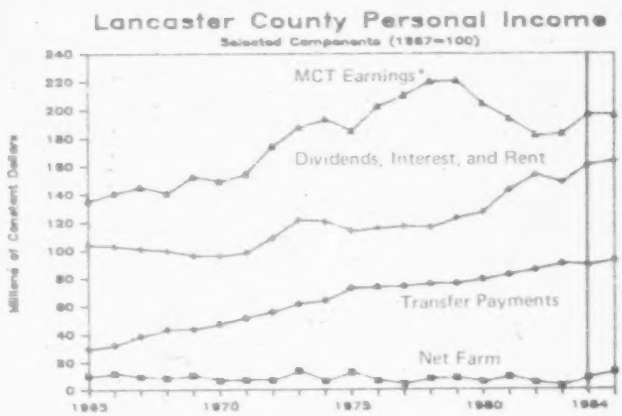
addition, earnings from some of the basic industries of manufacturing, construction, and transportation and public utilities (MCT) peaked in 1979, declined for several years, and have yet to match their 1979 peak. It is important to remember that because of the relatively small size of Nebraska's counties, these changes produced exceptional boom years for many Nebraska counties. Any comparison of subsequent years to an exceptional peak is apt to be misleading because conditions leading to those peaks are unpredictable and impossible to control.

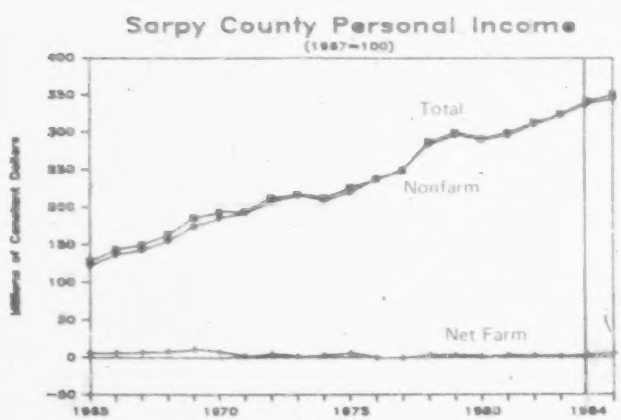
Between 1965 and 1984, Nebraska's inflation-adjusted personal income grew *2.5 percent* per year, compared to the national average of *2.9 percent*. For the state's metropolitan areas, total income was up 2.5 percent per year. The nonmetropolitan counties recorded a 2.4 percent annual growth in total personal income. Of the twelve counties reviewed, Sarpy had the largest inflation-adjusted increase in total personal income, averaging 5.3 percent per year between 1965 and 1984. The yearly adjusted increases of the remaining counties were Buffalo, 4.0 percent; Madison, 3.2 percent; Hall, 3.1 percent; Lincoln, 3.1 percent; Platte, 2.5 percent; Box Butte, 2.4 percent; Lancaster, 2.4 per-

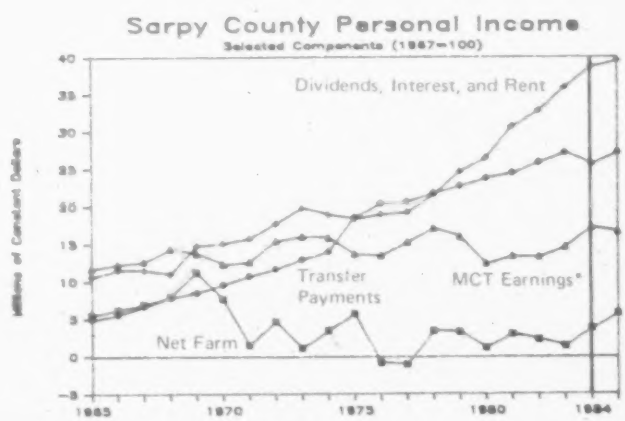








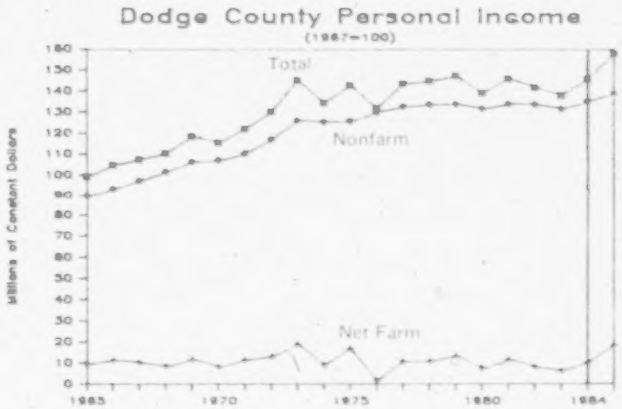


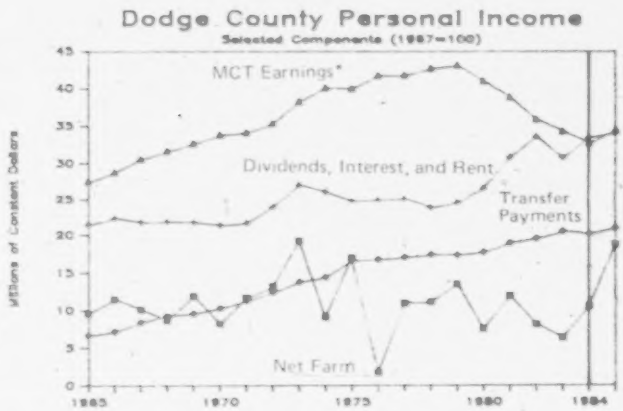


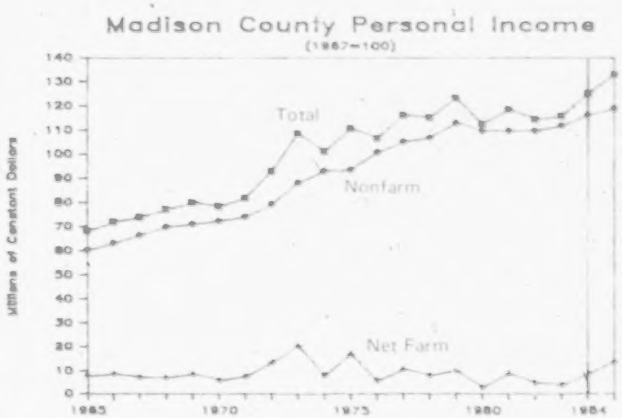
cent; Scotts Bluff, 2.1 percent; Douglas, 2.1 percent; Dodge, 2.0 percent; and Adams, 2.0 percent.

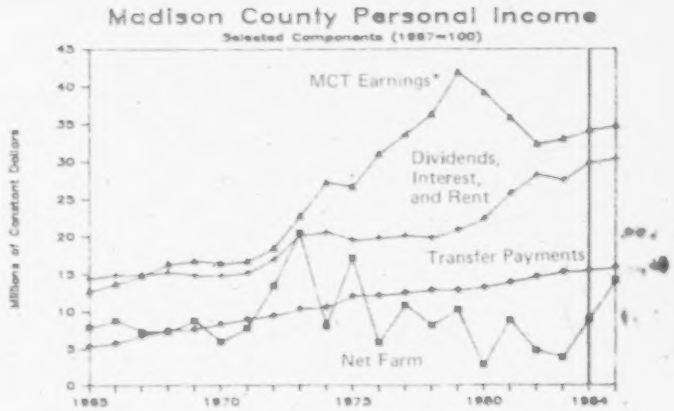
Another general trend is that nonfarm income has grown steadily with few interruptions since 1965. Net farm income has added sharp year-to-year fluctuations to total personal income, while nonfarm income has added an underlying strength that, for the most part, follows U.S. trends. Nonfarm income was up an average of 2.7 percent for Nebraska and 3.0 percent for the U.S. between 1965 and 1984. For the state's metropolitan counties, nonfarm income was up 2.5 percent per year. The nonmetropolitan counties recorded a 2.9 percent annual increase in nonfarm income. Sarpy County recorded the highest inflation-adjusted growth in nonfarm income, with an average of 5.5 percent per year. The other growth rates were Buffalo, 4.5 percent; Madison, 3.5 percent; Hall, 3.4 percent; Lincoln, 3.2 percent; Box Butte, 3.2 percent; Scotts Bluff, 2.8 percent; Platte, 2.7 percent; Lancaster, 2.5 percent; Dodge, 2.2 percent; Douglas, 2.1 percent; and Adams, 2.1 percent.

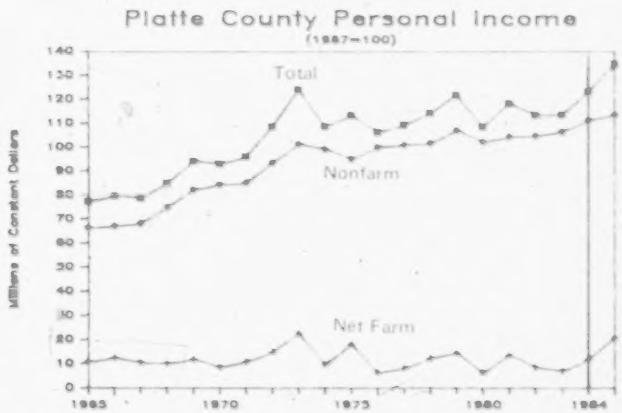
Net farm income has been subject to sizeable year-to-year fluctuations, but there appears to have been a general decline in

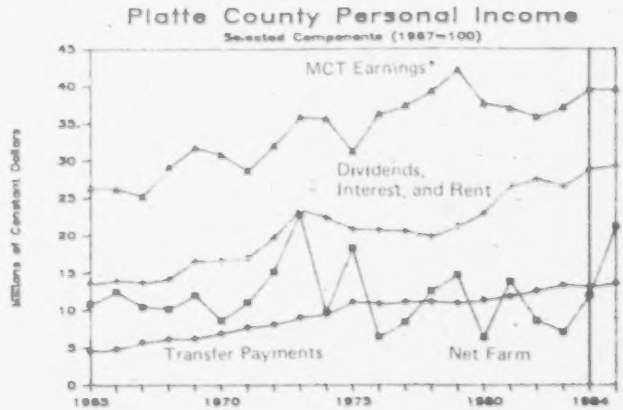






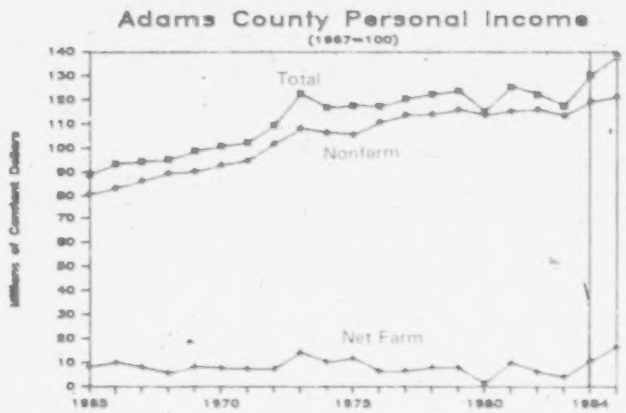


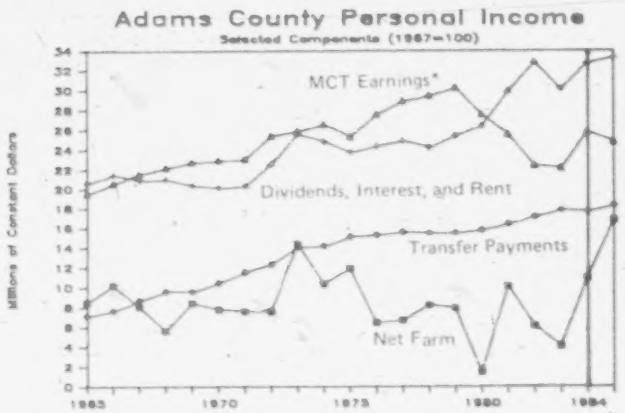


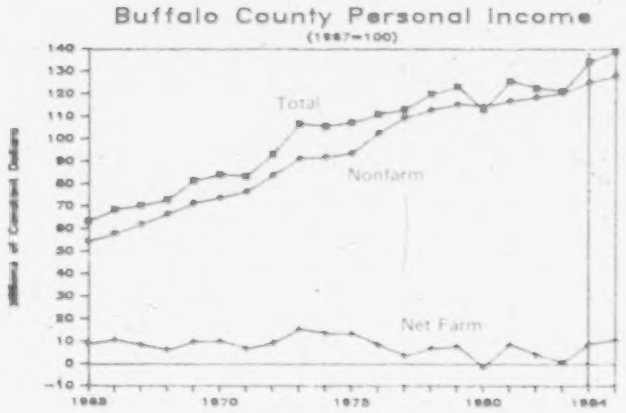


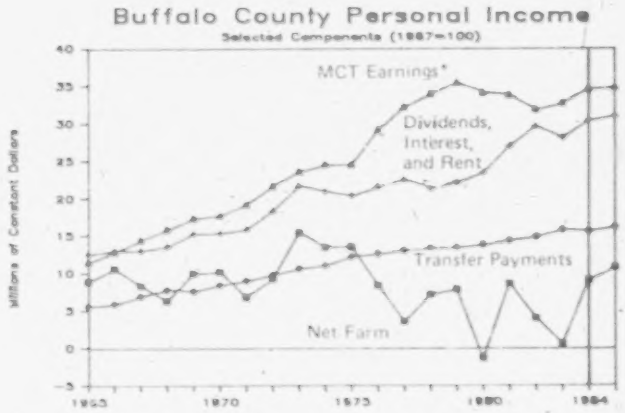
net farm income. Incomes in the 1980s have been below most other years and well below the levels of the early 1970s. In addition, net farm income has declined in relative importance. Because of high production and PIK payments, however, net farm income in 1984 for most counties is comparable to incomes in the late 1960s.

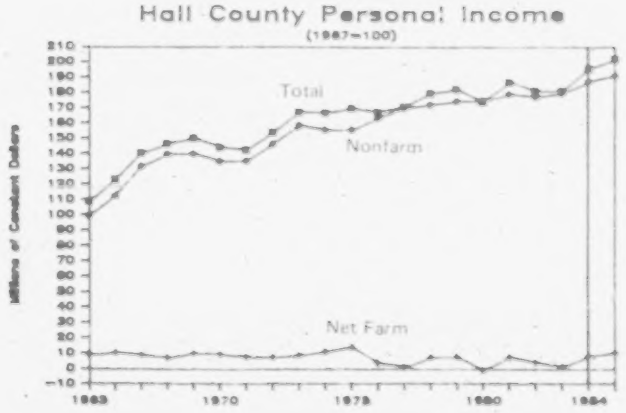
The two sources of income that have grown most rapidly since 1965 are dividends, interest, and rent (DIR) and transfer payments. (Transfer payments consist primarily of retirement benefits such as social security, railroad retirement, and veterans' pensions; but also include unemployment insurance payments and public assistance.) At the state level, DIR grew at an inflation-adjusted rate of 3.3 percent per year between 1965 and 1984. During this same period, transfer payments averaged a 5.5 percent annual increase. During the 1980s, however, DIR has grown more rapidly and is a major reason why total income has grown in spite of declines in manufacturing, construction, and transportation and lower net farm income. In most counties, DIR and transfer payments now exceed net farm income and, in many, DIR exceeds earnings from the sum of manufacturing, construction,

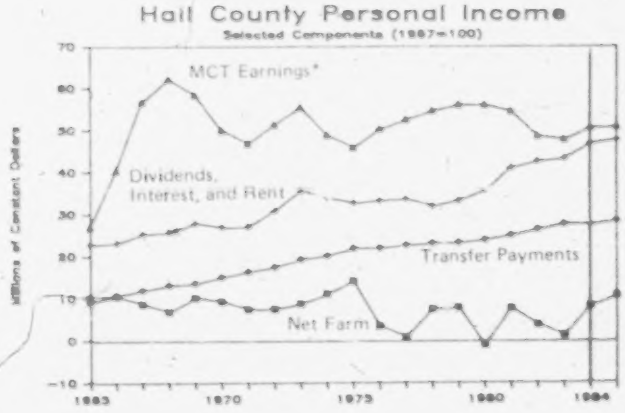






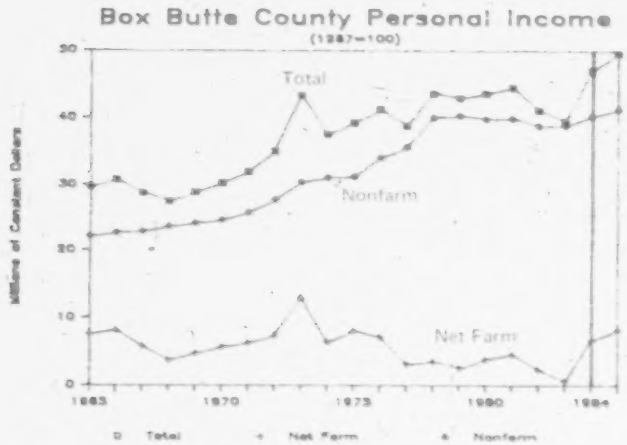


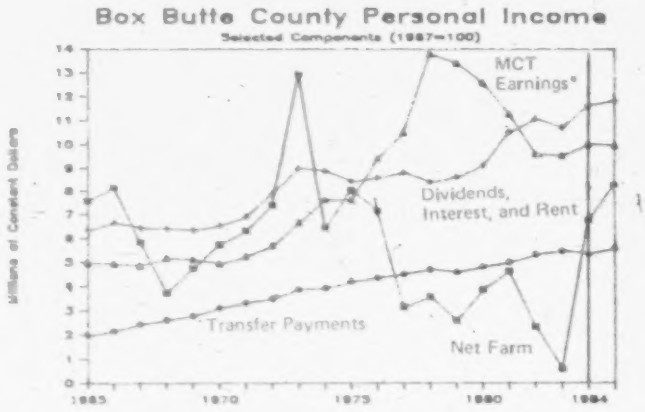


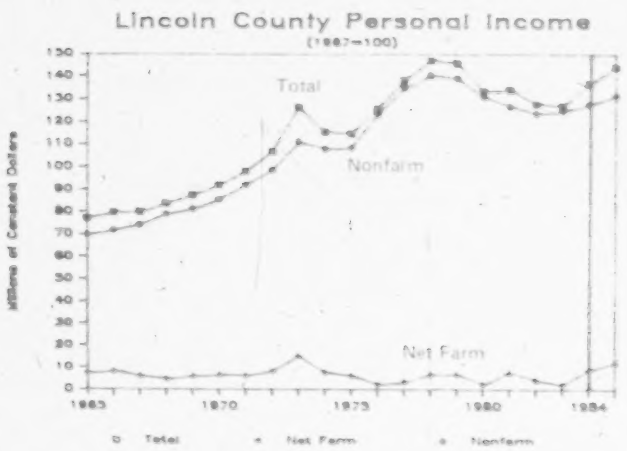


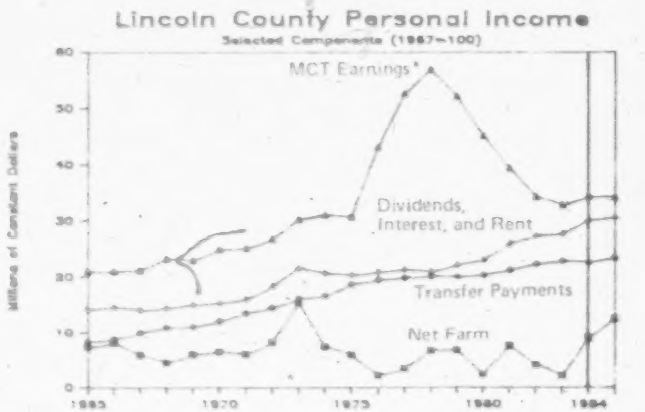
and transportation.

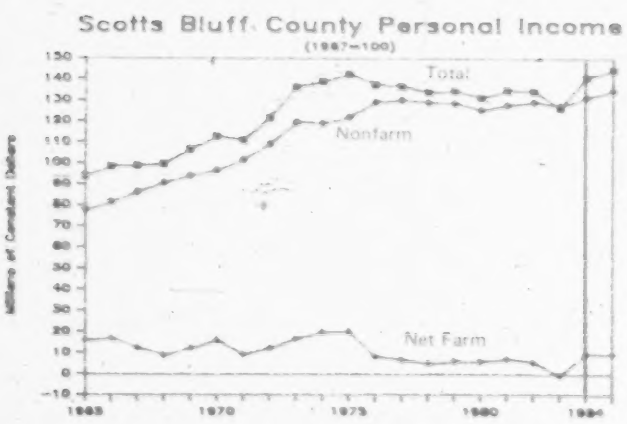
Earnings from manufacturing, construction, and transporation have grown more rapidly for Nebraska between 1965 and 1984 than for the nation as a whole: 1.9 percent compared to 1.4 percent. In addition, MCT earnings in nonmetropolitan counties grew at 2.8 percent, while they were up half that rate (1.4 percent) in metropolitan counties. The growth in nonmetropolitan counties occurred primarily during the 1970s as manufacturing decentralized and moved into nonmetropolitan areas. The railroads expanded rapidly between 1975 and 1978, especially affecting Box Butte and Lincoln Counties. At the same time, a number of power plants were built throughout the state, with two major plants in Lincoln County. With completion of the construction projects and a slowdown in transportation and manufacturing sectors, MCT earnings peaked in 1979 and declined for several years. Although these earnings have turned around, they remain below 1979 levels. Nonmetropolitan counties have been affected by this decline more than metropolitan counties, with Lincoln and Box Butte Counties especially hard hit.

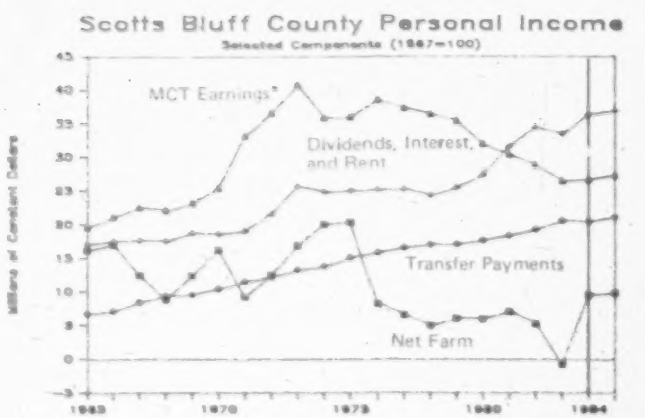








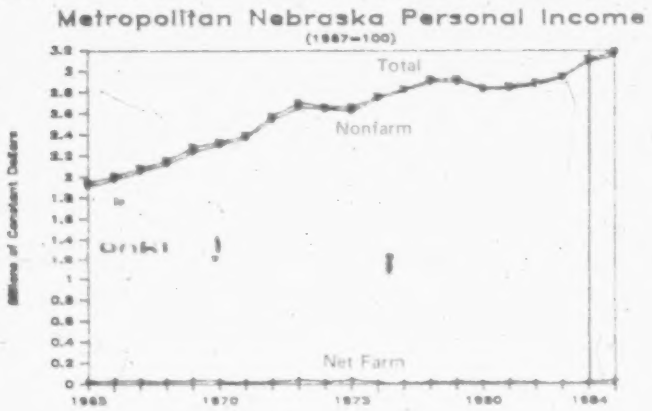


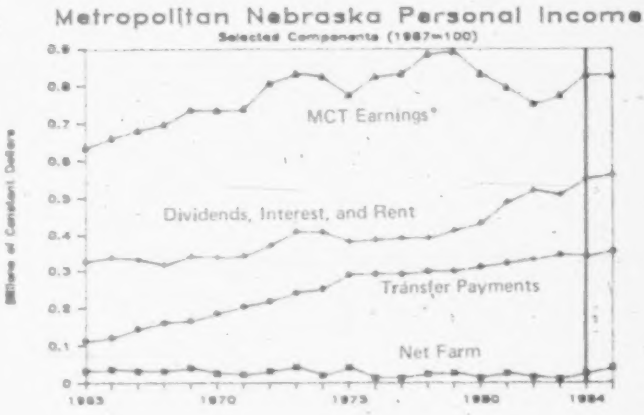


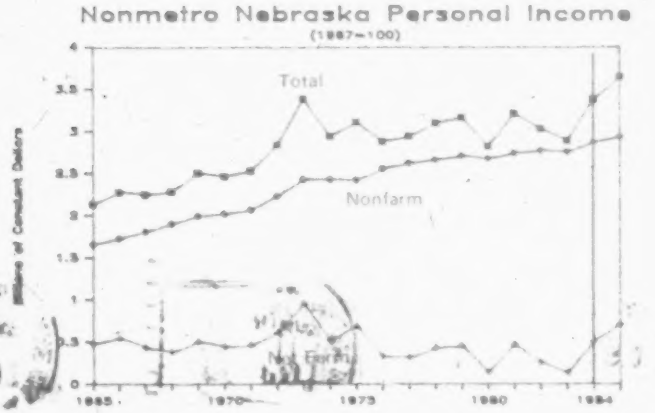
Between 1965 and 1984, inflation-adjusted MCT earnings grew most rapidly in Buffalo County, averaging an annual increase of 6.0 percent. Growth rates for the remaining counties were Madison, 5.3 percent; Box Butte, 3.8 percent; Hall, 3.4 percent; Lincoln, 2.6 percent; Platte, 2.1 percent; Sarpy, 2.0 percent; Lancaster, 2.0 percent; Scotts Bluff, 1.6 percent, Adams, 1.5 percent; Douglas, 1.1 percent; and Dodge, 0.9 percent.

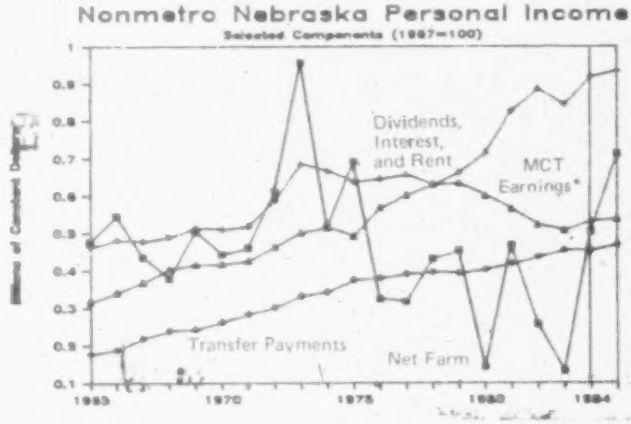
To summarize, the charts show that there has been some variation in the economic performance and structure of individual counties since 1965. They also illustrate that the choice of a beginning and ending year for comparison is important for evaluating the overall economic record of an area. Although over the long run the record has been one of moderate growth, a few exceptional years in the 1970s made the 1980s appear to lag. It is important to remember that because of their relatively small income base, the economies of Nebraska counties are vulnerable to periods of rapid growth or decline.

JEROME A. DEICHERT









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NEBRASKA BANK FAILURES AND THE STATE OF NEBRASKA BANKING

THE PRESENT

On Thursday, March 6, 1986, the First National Bank of Tekamah was closed by the Federal Deposit Insurance Corporation. It was the twenty-second Nebraska bank to have services suspended since the Bank of Niobrara was shut down on July 8, 1983. In contrast, the Bank of Niobrara was the first Nebraska bank to fail since the Elm Creek State Bank in April 1973. Only five Nebraska banks had failed or had closed voluntarily in the twenty-three years from 1960 through 1982.[1]

These twenty-two failed banks had many similarities:

1. They were located in communities of less than 6500 inhabitants, with the average population around 1500. Smaller banks tend to be the most vulnerable to failure[2] due to partial deregulation, which has exposed small town bankers to a wide range of new competition. They are more vulnerable, also, because of the narrow economic base of the community.

2. These banks were, for the most part, farm banks, defined as those institutions with at least 25 percent of their loans in agriculture. For example, the State Security Bank of Broken Bow, which closed December 5, 1985, had 58 percent of its $4.4 million loan portfolio in agriculture-related loans.[3] This inability on the part of small town bankers to diversify from farm loans doomed many banks when the farm economy faltered.

3. All but one of the twenty-two banks were state chartered institutions; the First National Bank of Tekamah was the exception. In Nebraska, there are about 335 state chartered banks (regulated by the state) and about 122 nationally chartered banks (regulated by the U.S. Comptroller of the Currency). The state has more discretion in closing a troubled bank than the U.S. Comptroller of the Currency.[4]

4. All but one of the failures involved the FDIC in the closing and transfer of funds. The Blair bank was taken over and then reopened as a branch of the Omaha National Bank without FDIC involvement.

5. Six of the twenty-two failed banks never reopened. The FDIC was unable to find solvent banks willing to enter those markets, either because the towns were too sparsely populated (as in the case of Dannebrog, Oak, or Elba) or because the presence of other financial institutions created an saturated market (as in Broken Bow). In cases where the FDIC has been unable to attract buyers, the lack of interest is reflected in the weak agricultural economy as well as the size and location of the town. If the town is not a county seat and not on a major highway, it can have problems attracting potential buyers.[5]

6. A number of failed Nebraska banks were part of a chain of banks owned and operated by an individual or partnership with individual banks in the chain maintaining their own identity. The distinction between chain banks and branch banks is subtle.

There is presently no stated limit to the number of banks an individual or partnership can own in a chain, though the state does maintain limits on the extent of branching and bank holding company expansion.[6] For example, the four Nebraska banks closed on May 31, 1985 were, or had been, part of a single chain, as were the three Nebraska banks closed on December 18, 1985.

With weakened chain banks, multiple bank failures can occur at the same time. On the other hand, if a multi-branch bank fails, it is considered only one failure. One problem with chain banks is that a single individual or family can control an unlimited number of banks, leading to an absentee ownership situation. For example, Roger Beverage, former State Banking Director, attributed the failure of the Bank of Verdigre on September 19, 1984 to the bank's absentee ownership, as well as bad farm loans.[7]

7. Above all, the common denominators in most of the twenty-two Nebraska bank failures are liberal lending practices, especially during the 1970s, coupled with the deteriorating agricultural situation. Historically, loans were granted on the basis of the three C's: character, collateral, capacity (ability to repay).

Too many banks relied upon collateral alone.[8] In the event of a loan default, the bank could sell the collateral in the form of land, which presumably would have held its value or appreciated. Farm land values, however, declined by 50 percent or more between 1981 and 1986 due to the diminished cash flow potential of the land, the decline in export prospects, and the decrease in the demand for land by foreigners who had purchased land in the 1970s as a safe-haven.

The decline in the manufacture of gasohol in this time of lower energy prices further aggravated the drop in farm land values. Many attribute the decline in farm land values to the passage of Initiative 300. Approved by voters in 1981, the initiative bans non-family farm corporations from acquiring farm land. Opponents believe the initiative has decreased the total demand for land, especially from corporate interests. Moreover, opponents maintain that agricultural processing facilities, the link between the grower and the market, have located outside the state because of this legislation. Hard evidence to support this view has yet to be demonstrated.

Some bankers also felt the need to support friends and neighbors beyond what was financially prudent, basing lending decisions on past commodity price trends and land valuations rather

TABLE 1
Location and 1980 Population of
Nebraska Banks Closed Since July 8, 1983

Bank of Niobrara, Niobrara	419
Bank of Blair, Blair	6418
David City Bank, David City	2514
Bank of Verdigre & Trust Co., Verdigre	617
Bank of Cody, Cody	177
Farmers State Bank, Kilgore	76
Uehling State Bank, Uehling	273
State Bank of Dannebrog, Dannebrog	356
Citizens State Bank, Arapahoe	1107
State Bank of Alexandria, Alexandria	255
Bank of Taylor, Taylor	278
Security State Bank, Edgar	705
Scroggins & Company Bank, Oak	79
Fairfield State Bank, Fairfield	543
Farmers State Bank of Rising City, Rising City	392
Elba State Bank, Elba	218
State Security Bank, Broken Bow	3979
Bank of Panama, Panama	160
Farmers State Bank, Sargent	828
Farmers & Merchants Bank, Comstock	168
Johnson County Bank of Tecumseh, Tecumseh	1926
First National Bank of Tekamah, Tekamah	1886

Source: Federal Reserve Bank of Kansas City and other sources.

than future cash flow potential. In addition, many chain banks are controlled by one owner or family with a subservient board unable to exercise significant control.[9]

Some banks failed for ancillary reasons. The closure of the State Bank of Dannebrog on January 7, 1985 was precipitated by the expiration of the liability bond on officers and employees without a replacement bond or the sale of the bank. State law forbids the operation of a bank without the liability bond. Roger Beverage stated that it took a technical declaration of insolvency to close the bank, but that its capital position was pretty good. The loss of the liability bond was caused by some unusual business practices wherein some of the bank's customers were participating with the bank in loans, mostly agricultural, to other customers, a practice that is in itself apparently legal. A blanket bankers' bond is intended to insure the institution against such things as dishonesty by officers or employees, burglary, or loss of cash in transit.[10]

Another financial institution, the Uehling State Bank, was closed on December 19, 1984 amid criminal charges against three formers owners involving $64,000 in alleged insider loans and forged promissory notes.[11] These insider loans exceeded the $10,000 legal loan limit. After an investigation, it was found that little money had been removed from the bank; rather, funds were moved within the bank to deceive bank auditors about the bank's financial soundness.[12] In this case, the Nebraska Banking Department exercised a new option provided by the 1984 Legislature (precipitated by the Commonwealth Savings Co. collapse) that authorized the state banking director to take certain actions if the banking director believes conduct by the banker may jeopardize the financial institution. Alternatives that can be pursued by the state banking director include a cease-and-desist order, fines, revocation of the licenses of banking officers, or a shutdown of the institution.

The State of Nebraska had $500,000 on deposit at both the Uehling and Dannebrog banks. The state lost $400,000 in each failure, the difference between its deposit and the FDIC reimbursement limit of $100,000 per account. The State of Nebraska had been depositing temporarily idle state funds in Nebraska banks and thrift institutions in accordance with a 1978 investment law, the purpose of which was to invest Nebraska monies within the state banking system, so the banks could make the money available to Nebraska borrowers.[13] Many other states have similar legislation. In early 1985, state deposits in excess of $100,000 were reported at 211 banks and 16 savings and loans. With the loss of $800,000 and the shortfall in state revenues reported in 1985, the efficacy of placing state funds in any bank indiscriminately has been called into doubt.

A financial institution, however, actually fails when it runs out of cash.[14] This precarious situation can be detected by means of several financial ratios, including the percentage of the loan portfolio classified as non-performing, non-performing loans as a percentage of capital, the ratio of equity to assets (which measures capital strength, or its safety reserves, calculated by dividing stockholders' equity by total assets on the balance sheet). Other key bank financial ratios include the liquidity ratio (derived by dividing the bank's liquid assets by its deposits) and the profitability ratio (which is net income divided by total assets).

The Nebraska State Department of Banking uses the CAMEL system to identify problem banks. CAMEL is an acronym for the following: Capital, Assets, Management, Earnings, and Liquidity. A number 1 rating is the best, and a number 5 rating is the worst. Problem banks are rated CAMEL 3-5. Over 65 percent of the state commercial banks are CAMEL 1 and 2. According to Roger Beverage, management is the most important measurement, because the inability of management to deal with problems causes bank failures.[15]

The failure of these twenty-two Nebraska banks and their timing can be traced directly to the high farm net income during the 1970s and the steadily increasing farm exports from 1977 to 1981. These increases encouraged an optimistic expansionist view that encouraged farmers to expand their acreage and convert marginal land to crops with center pivot irrigation systems. Young farmers, without the fears and conservatism instilled by the Great Depression, had too little equity and ran up enormous debts. As interest rates soared in 1979, interest costs on loans ate a growing share of the profits. The crushing blow was the drop in agriculture exports after 1981 caused by the Soviet grain embargo in 1980, the high value of the dollar, and increased competition from foreign countries such as Canada, Australia, and the nations of western Europe in providing grain exports.

The year 1981 marked a peak in agricultural exports and in total net income of Nebraska banks. Since then, both have dropped at an accelerating rate. It took about two to three years for these adverse economic factors to affect Nebraska banks. With two exceptions, there were no Nebraska bank failures until the David City Bank was closed on August 30, 1984. In the six

months after that failure, however, five banks failed. State banking officials did not become alarmed until the autumn of 1984, when they had the impression the bottom was falling out of land prices and farm machinery values.[16]

Nebraska bank failures are concentrated somewhat in an area between Broken Bow and Taylor, where much of the land has marginal agricultural value. It may be more likely to go out of production before this crisis passes than land in Iowa and Illinois.

Another factor in the geographic concentration of bank failures in certain areas is the lack of alternative employment, which prevents marginal farmers from seeking off farm income to make ends meet. At the same time, those farmers who must sell leave those areas because of the lack of alternative opportunities.

The lack of proximity to major markets drives up transportation costs, as well as depressing land values. For example, New England farmers, who are prospering in comparison to their counterparts in the Midwest, have benefitted from the general appreciation in New England real estate and their ability to diversify into other specialty products. At the same time, their proximity to major, densely populated markets enables them to sell directly to the consumer. Isolated Nebraska farmers have fewer bidders for their produce and are at the mercy of exports and selected buyers who can dictate price terms.

A two tier farm land market has developed. In areas of marginal land, prices are still falling, presaging further bankruptcies and bank closings in selected geographic regions. In the upper tier of highly productive acreage, land values may have bottomed out, although they may not have. As farmers and ranchers have defaulted on their loans, lenders have assumed control of collateral, usually in the form of land holdings; Nebraska lenders own about 140 farms and ranches containing over 140,000 acres. The fact that Nebraska and Iowa banks are required to dispose of farm land within five years[17] could add further downward pressure on farm land values if lenders are forced to dispose of these holdings quickly to meet time constraints.

THE PAST

An historical overview of Nebraska banking, such as that of W.E. Kuhn, illustrates several noteworthy points:

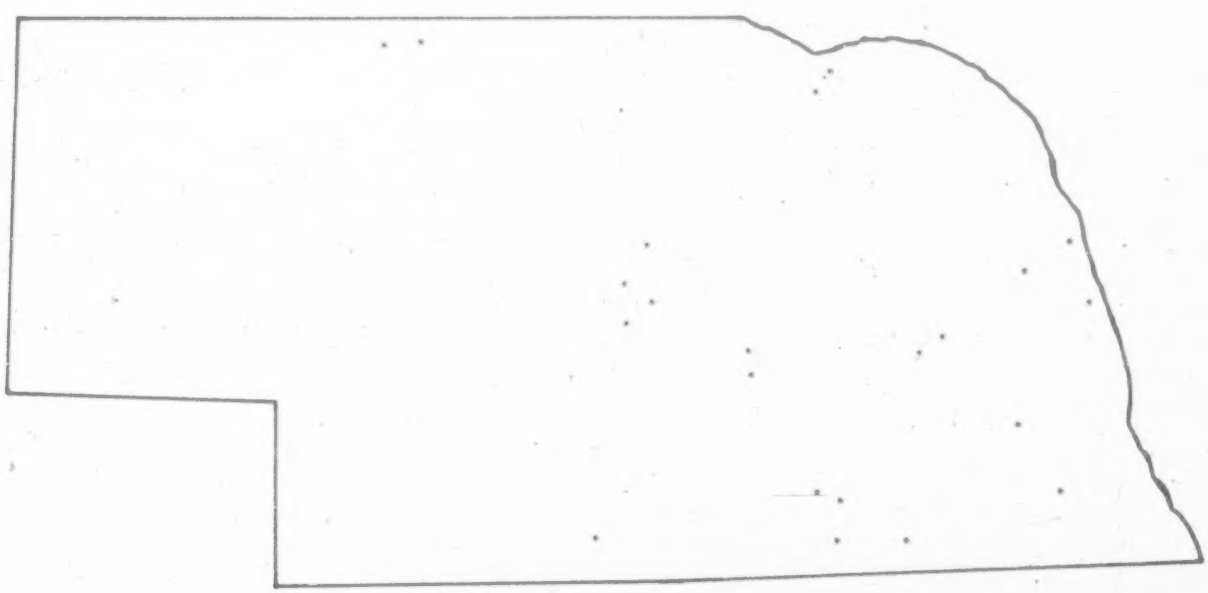
1. The banking system evolved on a trial and error basis as wildcat banks, saturation, and panic-produced failures led to legislation and regulation. For example, the Nebraska territory's whole financial structure collapsed with the banks in the panic of 1857.[18] The panic of 1893 and the ensuing depression claimed about 185 state banks and about 35 national banks. Bank deposits sagged from $35 million in 1892 to about $27 million in 1896. These losses led to the Deposit Guaranty Legislation Act of 1909 in order to provide depositor safety. As a result of this safeguard, the number of state banks and their deposits increased greatly until 1920,[19] creating a glut in Nebraska banking in the early postwar period. During the 1920s, an average of three national banks and thirty-five state banks failed each year in Nebraska.

These failures can be blamed on certain unsound business practices in land speculation, liberal loan policies necessitated by exorbitant interest paid on deposits, and on the inability and unwillingness of the State Department of Banking to refuse charters, thereby creating hundreds of banks for which there was no economic use.

These failures, considerably worse than the present crisis, led to the creation of an independent State Department of Banking in 1933 which was removed from political control and from the insurance industry. At the same time, the FDIC began operation on January 1, 1934, providing enhanced power to benefit bank creditors through greater supervisory powers and the backing of the U.S. Department of Justice. Federal deposit insurance was probably the key to stabilization of the banking system.[20]

2. The default of the Guaranty Fund in 1928 presaged by 55 years the default of the Nebraska Guaranty Fund for state chartered financial institutions following the Commonwealth Savings collapse. The Nebraska Guaranty Fund was created in 1976 for

FIGURE 1
Location of Nebraska Bank Failures Since July 8, 1983



the purpose of guaranteeing deposits in member credit unions and cooperative credit associations only. In 1977, the Legislature expanded the coverage to include industrial loan and investment companies. In both cases, the funds were established for the purpose of covering a select number of financial institutions, but became overextended and eventually collapsed as a result of the proliferation of institutions covered or the extension of coverage to institutions not originally eligible for coverage.

3. The post World War II emphasis on income derived from loans, as opposed to income derived from investment, and the added interest paid on deposits (all products of the increased credit demands of agriculture) set the stage for much of the present day money crunch felt by rural agricultural banks.

The 1970s were marked by two developments of importance to Nebraska banking:

1. The issue of commercial bank expansion through branching and bank holding companies still is being debated in the State Legislature and between rural and metro banking interests.

2. Electronic banking raised antitrust questions nationally as well as debate concerning the sharing of remote terminals by multiple numbers of banks and whether savings and loans could be excluded from the sharing agreement. The Nebraska Electronic Transfer System (NETS), established to share costs and terminal services, excluded savings and loans because savings and loans traditionally had been allowed to pay higher interest on savings. The NETS system allowed customers of many banks statewide to make transactions from the same terminal, with a central computer in Omaha coordinating respective banks.

The overriding issue in both of these developments is the efficacy of allowing urban-centered financial institutions to expand their domain of influence and services into rural regions and the state as a whole. The period from 1973 to the present has seen Nebraska, as many states, evolve from a unit banking and chain banking state to a state allowing both limited branching and multibank holding companies. This evolution spawned much debate, pitting large metropolitan banks against small rural banks.

As in earlier times, some permissive regulations, such as chain banking, were promoted by powerful political and social interests, while other interests opposed branching and holding companies, even though much of the difference between chains and holding companies is psychological.[21] As such, Nebraska has had potential statewide banking all along, but in a disguised form. At the same time, one bank holding company, Northwest Corporation, operated five banks in Nebraska through a grandfather clause, thereby granting them a legal competitive advantage. Moreover, the State Legislature has been circumvented on the issue of branching in part by the emergence of electronic banking, which extends unit banking beyond legal boundaries. This electronic banking favors large city banks who can afford the higher fixed costs of automatic teller machines and their enclosures and the expenses of overhauling their accounting systems to accommodate electronic banking.

By 1983, on the eve of the present banking crisis, the state banking system had legalized and set a structure that included unlimited chain banking, extended unit banking through electronic facilities, liberalized branch banking, and multibank holding companies such as FirsTier. This organization came about as a result of necessity and pragmatism, political pressure, and the realization that some form of extended statewide banking already had evolved outside the regulatory authority.

THE FUTURE

With farm surpluses increasing at an alarming rate, the export market declining, and net income down from 1981, the number of farms is expected to shrink to about 1.25 million units nationally by 2000 from the 2.24 million units assessed in the 1982 agricultural census.[22] The U.S. farm population has dropped from 30.5 million in 1940 to 5.8 million in 1984 and could decline by almost one-half by 2000. At the same time, net farm income is expected to decline 18 percent by 1989, with excess farm capacity remaining high.

These factors have led to a dramatic increase in the number of agricultural banks on the FDIC's list of problem commercial banks (437 at present versus 146 two years earlier). The percentage of banks on the problem list that are agriculturally based is 39.8 percent versus 24.2 percent in 1983.[23] Veribanc, Inc., a consulting firm based in Woburn, Massachusetts, found that farm banks made up 80 percent of the nation's 339 banks with more money in problem loans than capital.[24] The oil price decline since November 1985 may alter the composition of banks on the problem list. With Nebraska averaging about 9 percent of the total number of bank failures nationally, it is likely that the state probably has a considerable number of commercial banks on the problem list.

The president of Hawkeye Bancorporation of Iowa said that as many as one-third of Iowa's 634 commercial banks may not be around when the crisis ends. Some will merge with others, and some will fail.[25] With about 457 commercial banks in Nebraska, banks could decline by more than 100 over the next few years. Add to this the fact that the FDIC chairman predicted recently that as many commercial banks probably will fail nationally in 1986 as the 120 that failed in 1985. These failures will strike hard in agricultural areas and energy producing regions.

The consolidation and merger of small farms and small banks are inevitable in light of the increased costs incurred by higher interest paid to attract deposits, the costs of electronic banking, general inflation, and the depressed unit selling price of services as a result of the farm economy.

The farm crisis of the 1980s may have shifted the balance of power in favor of large metropolitan banks. The state admitted the necessity of more liberalized branching and bank holding companies in legislation of March 1984 which allowed a healthy financial institution to take over a troubled one without being penalized by some statutory limitations on banking properties. The purchased bank also would not count as one of the nine institutions a bank holding company can operate. This may or may not aid Nebraska's economy.

The emergence of expanded branch banking and bank holding companies is inevitable as banks seek to diversify from a single economy. At the same time, regional interstate banking has been declared legal in a U.S. Supreme Court decision of June 1985, thereby setting the stage for regional banking throughout the country.

The key to interstate banking is reciprocity, wherein a financial institution in Nebraska can expand into those states whose

banks are authorized to move into Nebraska. Another development is the emergence of limited service facilities such as Citicorp in Omaha that offer either checking accounts or commercial loans, but not both. The U.S. Supreme Court, in effect, legalized such institutions by declaring that they do not fit the description of a bank.

In the long run, the larger metropolitan banks will carry the small town banks, offering expanded services and more competition. Unfortunately, outside bank managers may be more insensitive to local needs, seeing local townspersons as faceless statistics on a balance sheet. This presages a sombre future for many small Nebraska towns who can only hope for a decline in interest rates, an increase in exports and commodity prices (that are beyond their control), and the diversification of the economy toward new outside industry.

In the final analysis, the solution to the misfortunes of many small towns in Nebraska hinges on two factors. First, the very decline in land values will make it attractive for some enterprising individuals to enter farming because as entry costs decrease, return on investment will increase (given a steady net income).

Second, with the liquidity problems of small town banks, the income consciousness of larger bank holding companies, and the budget cutting temper of the federal government, the ability to attract new industry to communities as a means of diversifying the economy and providing jobs can be found only in capital availability programs and small business support systems, which are the primary means of providing an economic climate conducive for business and industry to locate and remain in the area. Yet, Nebraska has fared poorly in studies analyzing its business climate, such as in *Inc.* magazine.[26] Hence, a good business climate must be fostered to attract capital to finance enterprise that builds the deposits necessary to rejuvenate banking.

LOUIS E. JEFFRIES

Endnotes

1. *Omaha World-Herald*, Sunday, March 9, 1986, p. 1.
2. *Ibid.*, Sunday, December 29, 1985, p. 1.
3. *Ibid.*, Friday, December 6, 1985, p. 12.
4. *Lincoln Journal-Star*, Sunday, August 4, 1985, p. 6A.
5. *Omaha World-Herald*, Thursday, September 19, 1985, p. 15.
6. For a complete explanation of the different banking structures, see Lynn Nejezchleb, "The Recurring Debate on Nebraska's Banking Structure," *Business in Nebraska* (August 1982), pp. 1-6.
7. *Omaha World-Herald*, Thursday, September 20, 1984, p. 1.
8. *Lincoln Journal-Star*, Sunday, August 4, 1985, p. 1A.
9. *Ibid.*, Sunday, August 4, 1985, p. 1A.
10. *Lincoln Journal*, Monday, January 7, 1985, p. 1.
11. *Omaha World-Herald*, Friday, January 4, 1985, p. 1.
12. *Ibid.*, Tuesday, August 13, 1985, p. 1.
13. *Ibid.*, Friday, December 21, 1984, p. 1.
14. *Lincoln Star*, Monday, September 24, 1984, p. 5.
15. *Omaha World-Herald*, Saturday, October 19, 1985, p. 11.
16. *Lincoln Journal-Star*, Sunday, August 4, 1985, p. 6A.
17. *Omaha World-Herald*, Sunday, February 23, 1986, p. 1-A.
18. W.E. Kuhn, "History of Nebraska Banking: A Centennial Retrospect," *Business Research Bulletin*, Number 72 (April 1968), p. 6.
19. *Ibid.*, p. 14.
20. *Ibid.*, p. 24.
21. *Omaha World-Herald*, January 4, 1976, p. 9-C.
22. *Lincoln Star*, Tuesday, March 18, 1986, p. 1.
23. *Omaha World-Herald*, Sunday, March 23, 1986, p. 1-M.
24. *Ibid.*, Wednesday, January 29, 1986, p. 9.
25. *Lincoln Journal*, Thursday, December 5, 1985, p. 1.
26. Nell Margolis, "Inc.'s Fifth Annual Report on the States," *Inc.* (October 1985), pp. 90-93.

Louis E. Jeffries is UN-L Assistant Professor of Humanities and Social Sciences, Libraries.

NEBRASKA BANKS' DEPOSIT RECORDS

Nebraska banks' deposit records--both state and federally chartered institutions--for December 31, 1984 and December 31, 1985 are available from the Bureau of Business Research. This publication lists EACH Nebraska bank, its deposits, and the percentage change in deposits from December 31, 1984 through December 31, 1985. Banks are listed alphabetically by community for easy reference. NOTE: ONLY NEBRASKA BANKS ARE INCLUDED. . .SAVINGS AND LOANS ASSOCIATIONS ARE NOT COVERED IN THIS PUBLICATION.

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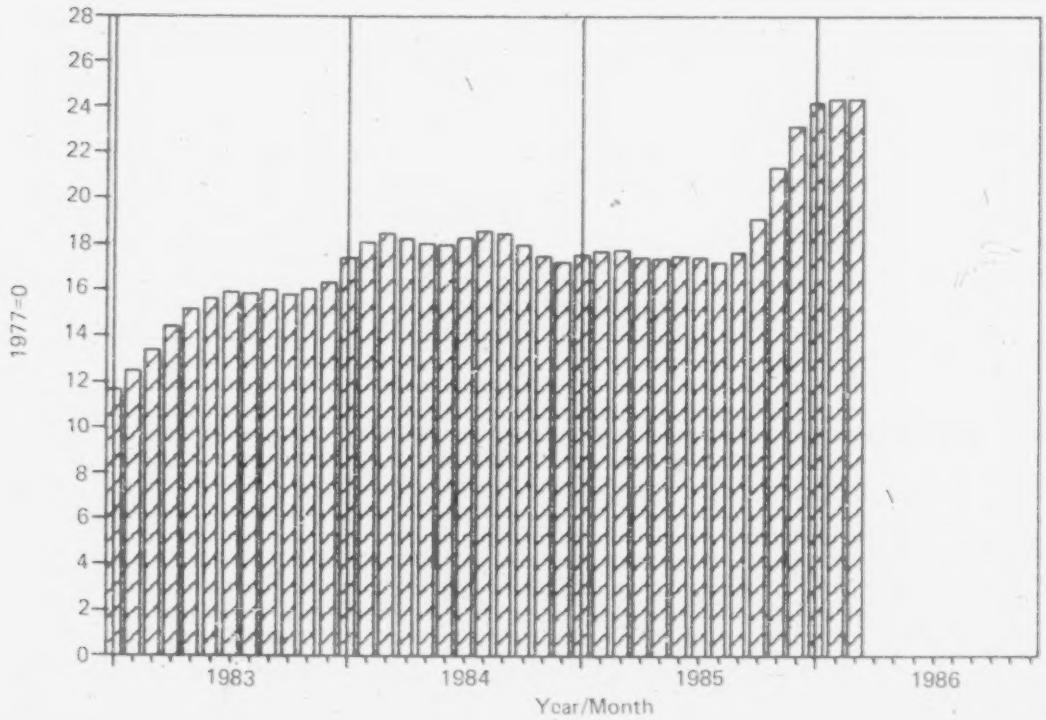
Chart 1
Nebraska Composite Leading Index



As depicted above, the Nebraska composite index of leading economic indicators registered a minute gain during March of the current year. The sizable gains in the leading index from October 1985 through January 1986 tapered in February, with an increase of 0.10 percent.

The slowdown in the Nebraska leading index is due mainly to an increase in adjusted initial claims for unemployment insurance and a decline in construction activity. It should be noted again that the claims and construction components are smoothed before inclusion in the composite index. The stock price component continued a pattern of upward movement, while average weekly earnings in manufacturing remained virtually unchanged. The March index for prices received by Nebraska farmers again recorded a decline, albeit the smallest in the last four m[illegible] Data available for April indicate probable upward move[illegible] the leading index for that month.

Increases in the Nebraska leading index during the latter half of 1985 indicated the likelihood of economic improvement for the state during the first half of 1986. Improvements in the employment picture during March and April lend some credence to this optimistic outlook.

CHARLES L. BARE

BUSINESS IN NEBRASKA
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BUSINESS IN NEBRASKA

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PROFILE OF OMAHA MSA PERSONAL INCOME

This article profiles the Omaha Metropolitan Statistical Area (MSA) in terms of personal income growth and composition. Omaha's income structure, as characterized by primary sources and industry sources, is compared to the income structures for Nebraska as a whole and the United States. Most of the analysis is conducted for selected years during the twenty year period from 1965 to 1984. Income data used in this article are the latest available data (April 1986) published by the Bureau of Economic Analysis of the U.S. Department of Commerce. In the following narrative, any reference to Omaha income refers to Omaha MSA income.

The Omaha MSA includes the Nebraska counties of Douglas, Sarpy, and Washington, together with Pottawattamie County in Iowa. Omaha consists of metropolitan areas bordering both banks of the Missouri River, which form a unique geographic and socio-economic entity with economic characteristics often at variance with stereotyped perceptions of farm belt economies. Stated differently, Iowa and Nebraska are agricultural states whose overall economies are influenced to a great extent by the fortunes and/or misfortunes of the farm sector. (The current farm crisis underlines the importance of agriculture to the economies of Iowa and Nebraska.) The foregoing description, however, is not necessarily an accurate description of Omaha, whose economy more closely resembles the national economy in terms of income growth and composition. Specifically, farm earnings accounted for only 1.4 percent of total Omaha earnings in 1984. This presentation does not intend to downplay the importance of agriculture to the Omaha economy, but to clarify the importance of agriculture relative to Omaha and the state.

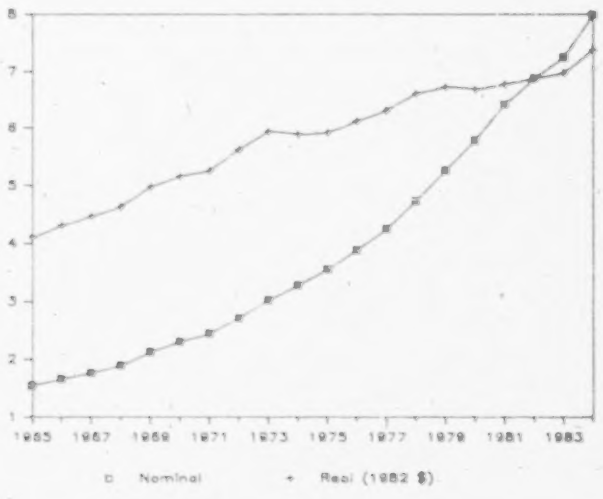
In this article, income differences and similarities between the Omaha economy and the Nebraska and U.S. economies will be presented and analyzed. The main objective is to provide an overview of the Omaha area with respect to income changes and to identify sources and sectors where such changes have occurred.

INCOME GROWTH 1965-1984

Nominal personal income for the Omaha MSA was estimated at $8.0 billion in 1984, up 416 percent from the $1.5 billion reported during 1965. In real terms (1982 dollars), the corresponding income gain was 80 percent. Figure 1 illustrates the growth of nominal and real income for Omaha during the 1965-1984 period. Omaha personal income has ranged between 37.4 percent and 41.6 percent of Nebraska income. From 1965 to 1984, Omaha income averaged 40.2 percent of Nebraska personal income.

During the period studied, real income growth for the Omaha area lagged behind that of Nebraska and the United States. From

FIGURE 1
Omaha Personal Income
(billions of dollars)



1965 to 1984, annual changes in U.S. personal income exceeded Omaha income growth on 14 occasions. The average annual percentage change in personal income was 3.16 percent for Omaha, while the nation realized a 3.63 percent average yearly income gain from 1965 to 1984.

With an average annual increase of 3.34 percent, real income movement for Nebraska exceeded Omaha's growth rates during 10 of the 19 annual periods of change (Figure 2). Income growth rates for Omaha, however, are more stable than Nebraska income changes.

From 1965 to 1984, no declines in real personal income were realized at the national level, although income growth slowed dramatically during the 1974-1975 and 1980 recessions. Although U.S. income gains have outpaced Omaha income changes, the patterns of income growth for the two regions are similar. With only two declines occurring over the period, real Omaha personal income tracked national income growth more closely than it tracked Nebraska income growth (Figure 3).

Compared to Omaha and the United States, Nebraska exhibited more volatility in real income movement, registering five declines in real personal income since 1965. The largest drops in Nebraska personal income correspond to the recessions of 1974-1975 and 1980. The farm income component, which tends to fluctuate more than nonfarm income, is the culprit usually responsible for wide swings in the annual growth rate of Nebraska personal income. During the 1965-1984 period, estimated farm income for the state ranged from a low of $0.4 billion in 1980 to

FIGURE 2

% Changes in Real Personal Income

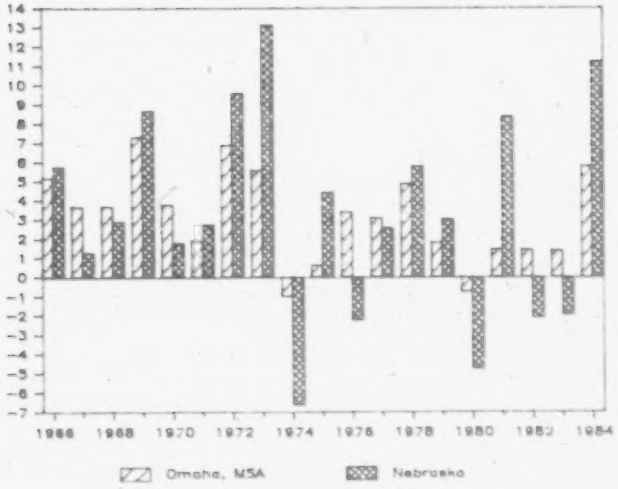
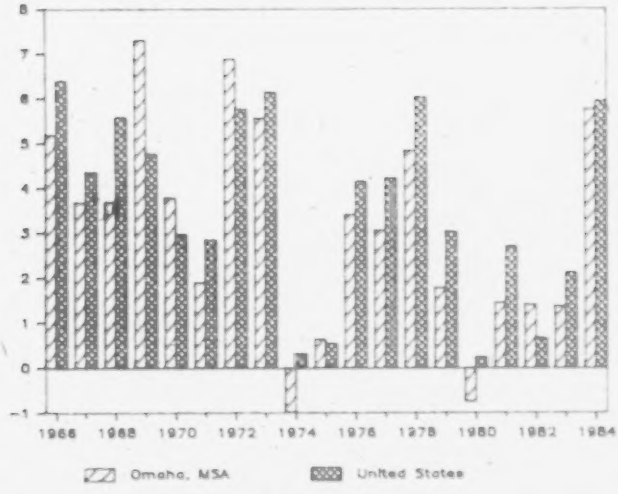


FIGURE 3

% Changes in Real Personal Income



a high of $1.6 billion in 1984, a 324 percent change. Drastic changes (both increases and decreases) in farm income can occur at any time due to the nature of the industry.

PRIMARY INCOME SOURCES FOR THE UNITED STATES

Primary sources of personal income include the following: 1. wages and salaries plus other labor income (henceforth referred to as "labor income"), 2. proprietors' income, 3. transfer payments, and 4. dividends, interest, and rent (henceforth referred to as "DIR income").

The largest income source historically has been labor income. The primary components of labor income are wages and salaries. "Other labor income" largely consists of employer contributions to private pension and welfare plans. In 1965, U.S. labor income accounted for 68.3 percent of total personal income (Figure 4). By 1984, the labor income share declined to 63.7 percent.

Proprietors' income is the income, including income-in-kind, of proprietorships and partnerships and of tax exempt cooperatives. Proprietors' income as a share of personal income dropped sharply over the period, plummeting from 10.3 percent of 1965 income to a 4.9 percent share in 1984. The largest (and only) gains in the share of total personal income were realized in transfer payments and DIR income. Transfer payments are income payments to persons for which they do not render current services and include payments to individuals by government and business. The share for combined transfer payments and DIR income increased from 21.4 percent in 1965 to 31.4 percent of 1984 total income.

PRIMARY INCOME SOURCES FOR NEBRASKA AND OMAHA

For the Omaha MSA, the percentage composition of primary income sources is similar to the national breakdown, but differs considerably from the income composition for Nebraska as a whole. As illustrated in Figure 4, the Omaha economy is more labor intensive than the state. In 1965, Omaha labor income accounted for 68.7 percent of total personal income. Over the twenty year period from 1965 to 1984, this share declined only slightly to 67.4 percent, reflecting the stability of the Omaha labor market. At the state level, labor income represents a smaller portion of total income than it does for Omaha. The 1965 labor income share for Nebraska was 54.5 percent, increasing to 54.8 percent in 1984 (Figure 4).

Combined transfer payments and DIR income accounted for 25.4 percent of Nebraska income in 1965; this share increased to 33.0 percent by 1984, surpassing the national share by a slim margin. For Omaha, the transfer payments-DIR share of personal income moved upward from 20.0 percent in 1965 to 26.3 percent in 1984, remaining well below the state share.

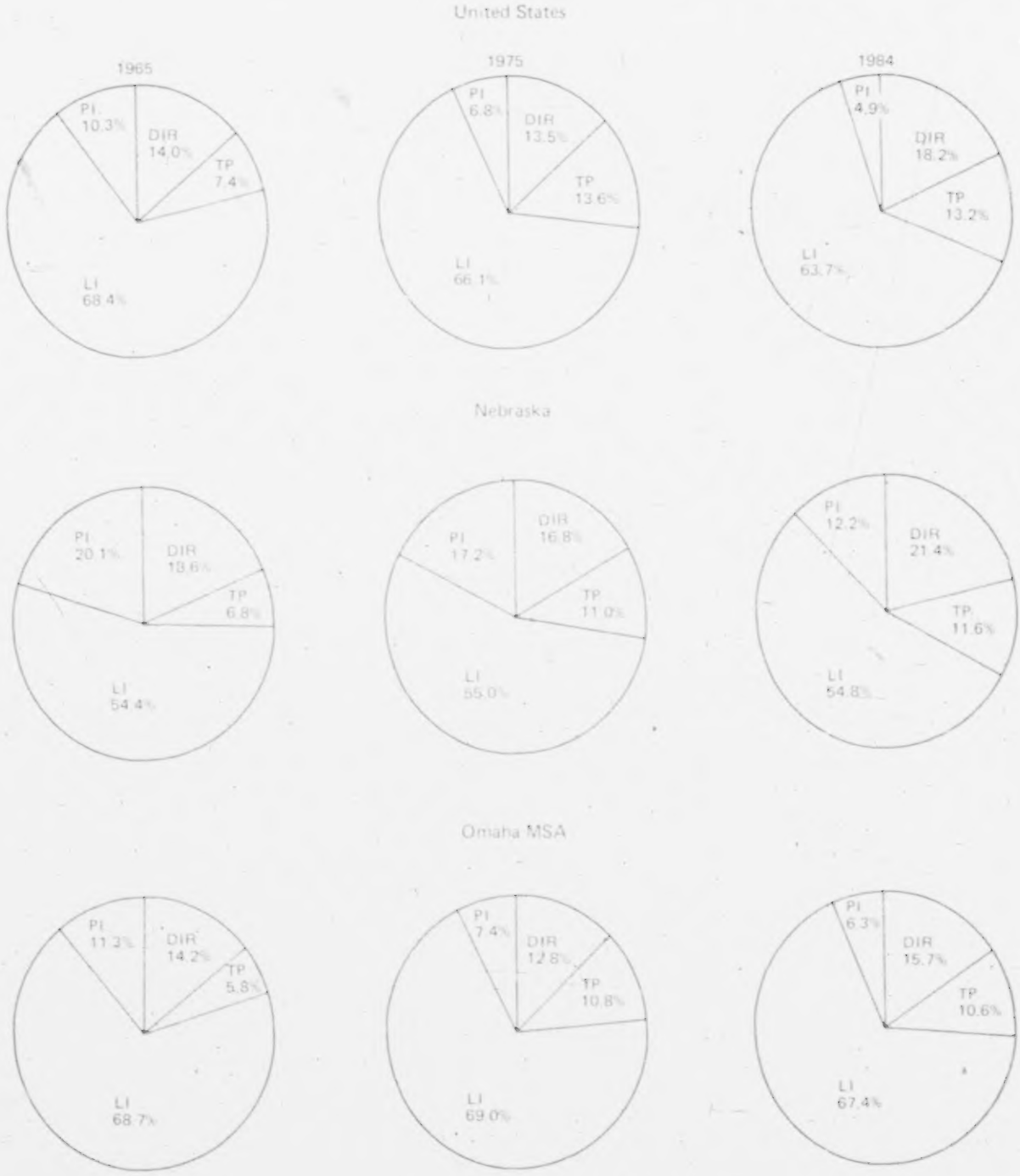
Mirroring the national trend, Omaha proprietors' income fell in share value, moving downward from 11.3 percent in 1965 to a 1984 value of 6.3 percent. Because of Nebraska's agricultural sector, proprietors' income accounts for a larger share of total income than it does for either Omaha or the United States. Proprietors' income represented 20.1 percent of Nebraska income in 1965, dropping sharply to 12.2 percent by 1984. The fall in state proprietors' income can be attributed, in part, to the historical decline in the number of farm proprietors.

OMAHA INCOME BY INDUSTRY SOURCE

In this section, income by industrial sector is presented as a share of total earnings. Sector income (or earnings) consists of labor and proprietors' income. Around 1974, Omaha began the transition from a goods-producing economy to a services-oriented economy. As indicated by Figure 5, services income, measured as a percent of nonfarm income, exceeded manufacturing income from 1975 onward. The move away from a goods-producing economy toward services is a nationwide trend. The evidence presented in Figure 5 indicates that the income share gap between manufacturing and services may continue to increase for some time to come.

Omaha income by industry source for selected years is presented in Figure 6. The manufacturing, construction, and farm sectors of the Omaha economy have realized significant declines in their shares of total earnings since 1965. The manufacturing sector registered the largest decrease in the share of earnings, falling below 14 percent in 1984. Other sectors have either remained relatively stable or increased in terms of income shares. The most notable change over the period is the reversal in the magnitudes of the income shares for the manufacturing and services sectors. Although the trade sector has remained fairly stable over the years, the retail trade share of nonfarm income surprisingly has declined from 11.0 percent in 1965 to 9.4 percent in 1984. The wholesale trade sector's share of nonfarm income, however, has increased slightly from 1965-1984.

FIGURE 4
Primary Income Sources



PI = Proprietors' Income, DIR = Dividends, Interest, and Rent, TP = Transfer Payments, LI = Labor Income

Review and Outlook

The Nebraska composite index of leading economic indicators jumped 0.8 percent during April 1986, the largest increase in the leading index since December 1985. Additionally, the revised March index rose 0.5 percent after being reported virtually flat in the June 1986 issue of *Business in Nebraska*. The March and April gains in the leading index follow a two month slowdown occurring at the beginning of 1986. (See Figure A.)

The April increase in the Nebraska composite leading index is the result of advances in four of the five seasonally adjusted component indicators of the Nebraska composite index of leading economic indicators. The only component indicator to decline during April was the index of prices received by Nebraska farmers for all agricultural products, down 2.3 percent from the previous month. Table A lists the component indicators and the March-April symmetric percentage changes in the seasonally adjusted components.

Increases in the Nebraska leading index during the first half of 1986, in conjunction with no recent downturns, indicate the strong likelihood of continued improvement for the Nebraska economy until at least the end of 1986. Advanced data received for May point to another increase in the Nebraska leading index. It should be noted, however, that much of the upswing in economic activity has occurred in the metro areas of the state. The

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes - see Table 5, page 5.

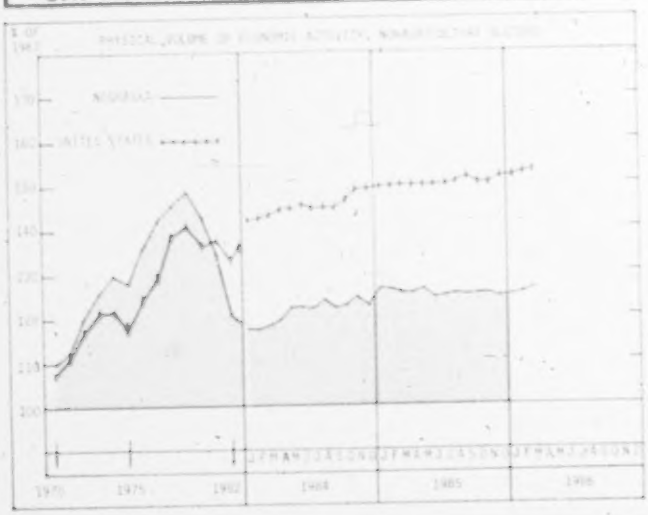
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

March 1986	Current Month as Percent of Same Month Previous Year		1986 to date as percent of 1985 to date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	102.7	104.4	102.7	104.9
Construction	98.2	106.3	95.4	105.9
Manufacturing	95.8	96.6	95.3	97.7
Distributive	103.3	106.6	103.5	107.0
Government	111.6	106.2	111.8	106.2
Physical Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	100.3	102.5	99.6	102.3
Construction	94.4	102.2	92.0	102.1
Manufacturing	97.6	98.5	96.1	98.6
Distributive	101.0	104.3	100.4	103.8
Government	103.2	102.5	103.2	102.6

2. March 1986 CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	na	na
Agricultural	na	na
Nonagricultural	378.7	468.6
Construction	271.0	472.2
Manufacturing	357.8	312.2
Distributive	390.5	554.2
Government	418.4	473.7
Physical Volume	na	na
Agricultural	na	na
Nonagricultural	126.2	152.7
Construction	73.8	128.7
Manufacturing	146.8	125.3
Distributive	119.8	170.0
Government	153.1	153.9

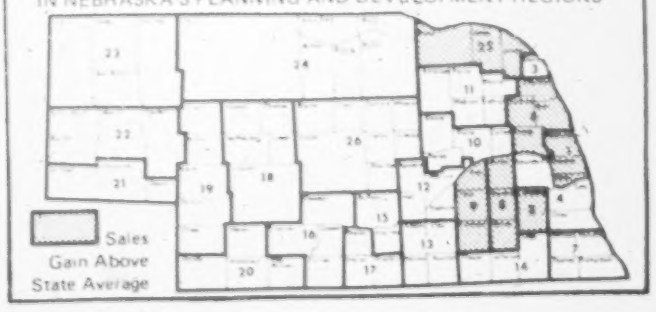


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES
March 1986

Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	March 1986 as percent of March 1987	March 1986 as percent of March 1987	1986 to date as percent of 1985 to date
The State	107.6	107.1	104.4
1 Omaha	112.2	110.6	109.0
Bellevue	107.7		
Blair	105.6		
2 Lincoln	110.7	109.0	108.1
3 So. Sioux City	109.6	103.4	101.6
4 Nebraska City	105.5	110.8	105.5
6 Fremont	106.1	108.9	108.0
West Point	107.7		
7 Falls City	106.6	114.3	105.0
8 Seward	113.8	112.4	109.1
9 York	119.3	114.7	107.4
10 Columbus	113.5	110.5	104.6
11 Norfolk	100.3	102.2	101.2
Wayne	113.9		
12 Grand Island	101.0	103.6	100.8
13 Hastings	109.4	110.8	104.4
14 Beatrice	103.9	102.9	104.8
Fairbury	97.3		
15 Kearney	102.9	104.4	103.4
16 Lexington	86.2	96.0	95.5
17 Holdrege	90.0	96.1	98.2
18 North Platte	103.6	105.1	104.5
19 Ogallala	108.6	102.2	97.1
20 McCook	110.0	106.8	101.9
21 Sidney	103.8	80.0	91.9
Kimball	53.5		
22 Scottsbluff/Gering	110.8	112.0	103.5
23 Alliance	107.2	106.5	97.9
Chadron	109.2		
24 O'Neill	108.7	104.2	100.9
25 Hartington	112.7	125.1	107.9
26 Broken Bow	108.6	105.9	102.8

[1] See region map below.
[2] Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1986 YEAR TO DATE AS PERCENT OF 1985 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



impact of the agriculture crisis on the overall Nebraska economy should not be downplayed.

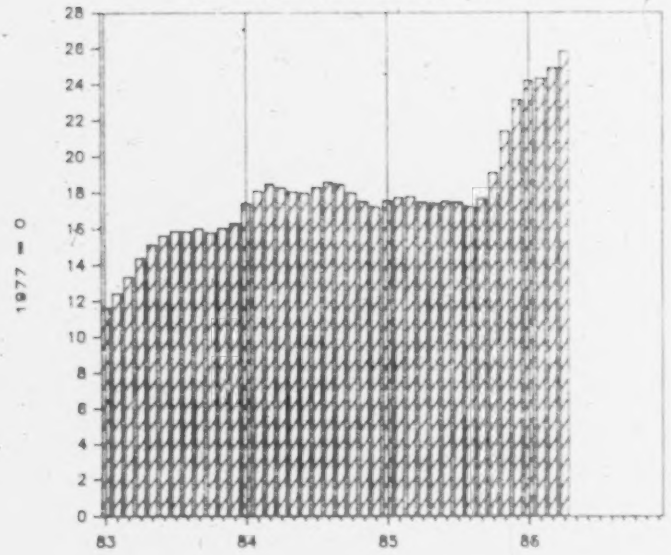
TABLE A
Percentage Changes* in Seasonally Adjusted Component Indicators of the Nebraska Composite Index of Leading Economic Indicators

Component indicators	April 1986
Initial claims for unemployment insurance (inverted)**, Nebraska Department of Labor	+4.5
Number of residential dwelling units–new construction contracts**, F.W. Dodge of McGraw Hill	+29.5
500 common stocks, Standard and Poor's Corporation	+2.4
Prices received for all farm products, Nebraska Crop and Livestock Reporting Service	-2.3
Average weekly earnings in manufacturing, Nebraska Department of Labor	+2.3

*Percentage changes are computed to assure symmetrical treatment of positive and negative changes in the component indicators.

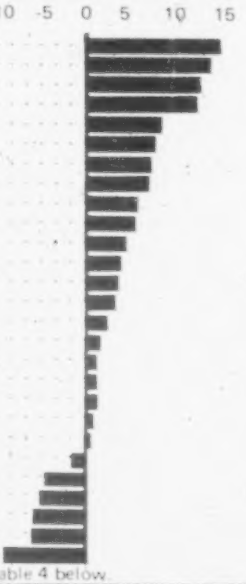
**Claims and dwelling units are smoothed using an unweighted 3 month moving average. Percentage changes in claims are inverted by multiplying by -1.

FIGURE A
Nebraska Composite Leading Index



CHARLES L. BARE

CITY BUSINESS INDEX
Percent Change March 1985 to March 1986



Source: Table 3 (page 4) and Table 4 below.

4. March 1986 — CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	101.3	88.9	101.6
Alliance	98.5	66.4	103.3
Beatrice	99.9	231.5	104.5
Bellevue	101.7	204.7	105.4
Blair	101.7	141.0	112.6*
Broken Bow	100.5	885.7	98.4
Chadron	103.3	10.7	89.2
Columbus	99.9	56.2	109.7
Fairbury	101.8	31.1	109.0
Falls City	100.8	728.3	88.0
Fremont	102.5	101.7	104.5*
Grand Island	101.4	83.0	94.4
Hastings	101.5	64.9	75.8
Holdrege	99.3	75.4	93.0
Kearney	101.1	77.2	86.7
Lexington	100.5	53.0	91.7
Lincoln	101.1	116.2	103.3
McCook	101.8	12.8	87.8
Nebraska City	100.1	93.6	106.7
Norfolk	101.3	60.9	100.9
North Platte	100.7	76.3	99.3
Omaha	101.7	78.3	111.3
Scottsbluff/Gering	101.3	127.1	80.3
Seward	100.8	273.0	108.1
Sidney	101.4	75.1	88.2
So. Sioux City	105.4	287.8	120.2
York	99.7	17.1	97.9

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

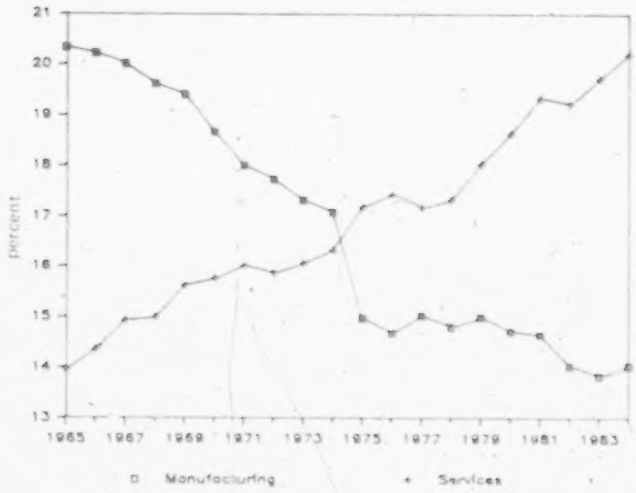
Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES

March 1986	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	326.0	102.3	103.1
Commodity component	283.7	99.4	101.1
Wholesale Prices	300.3	97.3	98.6
Agricultural Prices			
United States	223.0	90.3	90.8
Nebraska	218.0	92.4	91.2

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

FIGURE 5
Sector Income Shares--Omaha



CONCLUSIONS

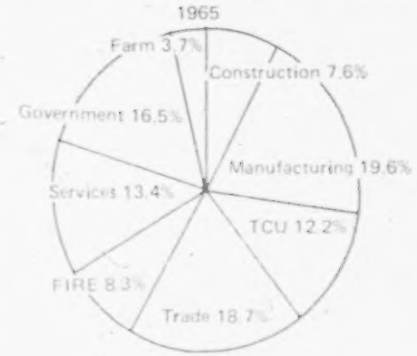
During the past twenty years, income growth for the Omaha MSA overall has lagged behind both Nebraska and the U.S. Annual income changes for Omaha, however, have tracked more closely the U.S. growth rates, indicating that Omaha behaves economically more like the nation than the state. Nebraska income growth exhibits a great deal of volatility due to the farm income component.

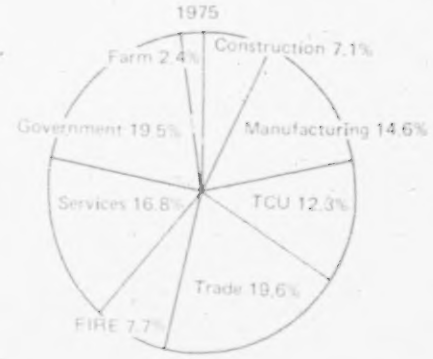
Primary income sources for Omaha resemble U.S. income sources in terms of the percentage composition over time. With respect to income shares, the Omaha economy is more labor intensive than Nebraska, but realizes a considerably smaller share of transfer payments and DIR income. At all levels, proprietors' income as a share of total income continues to decline.

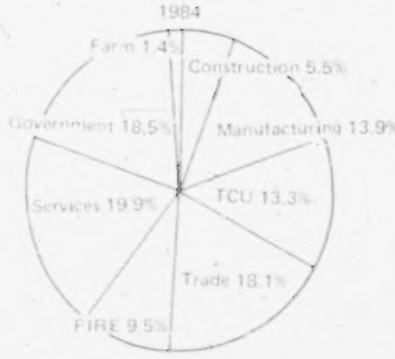
Since 1974, Omaha has moved steadily from being a goods producing economy to a services oriented economy, reflecting a nationwide trend. In terms of the share of total income, Omaha services income has surpassed manufacturing income, and it appears that the gap will continue to increase.

CHARLES L. BARE

FIGURE 6
Income by Industry Source--Omaha MSA







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OMAHA'S EMPLOYMENT RECORD: A COMPARISON WITH OTHER PLAINS CITIES

The announcement of the relocation of InterNorth's corporate headquarters from Omaha has caused concern about the area's employment picture. This event is not without precedence. For example, Omaha adjusted to substantial changes in the meatpacking industry in the 1950s and 1960s. Although there are immediate adverse effects of such events, it is instructive to take a longer-run view of Omaha's employment record to assess the current situation.

This article will examine the change in Omaha's nonagricultural employment between 1972 and 1985. This record will be compared to other large cities in the Plains region. The analysis will separate and measure three determinants of Omaha's employment change: overall employment growth in the Plains region, Omaha's industry mix, and Omaha's share of regional employment.

DATA

The employment data used here are from an ongoing Bureau of Labor Statistics survey of establishments. This series does not measure employment for the agricultural sector and, as a result, the agricultural sector is not included in the following analysis. Industry data were available for nine of the ten largest Plains cities from 1972 to 1985. These include Davenport, Des Moines, Kansas City, Lincoln, Minneapolis, Omaha, St. Louis, Springfield, and Wichita. Data for the remaining city, Duluth, were not available until 1975, so it was omitted. The employment data refer to each city's metropolitan statistical area, which generally consists of the county containing the identified city and heavily populated adjacent counties. The nine areas as a group are referred to as Plains cities throughout the article. Prior to 1972, employment data were not available for several of the cities examined here, so 1972 was selected as the beginning year of the analysis.

EMPLOYMENT GROWTH

Between 1972 and 1985, Omaha's employment increased 30.2 percent, which was just less than the 31.8 percent growth for the nine Plains cities and the 32.6 percent U.S. rate. Nebraska's total employment grew 25.8 percent during this same period. Figure 1 shows the employment record for each of the Plains cities in the study. The figure allows a comparison of the employment trends among cities and also provides a comparison of the relative sizes of the cities in terms of employment.

Between 1972 and 1985, Springfield showed the largest percent increase in employment (49.5 percent), followed by Minneapolis (46.6 percent) and Wichita (42 percent). Des Moines, Kansas City, Lincoln, and Omaha each increased employment between 30 and 34 percent. St. Louis and Davenport showed the slowest gains of 18.3 percent and 11.9 percent respectively.

Minneapolis and St. Louis are the two largest Plains cities, accounting for more than half of the employment in the nine cities examined. As shown in Figure 1, their employment trends during the period display a striking contrast. Minneapolis began the period well below St. Louis in terms of employment. Because of the sharp difference in growth rates, 1985 employment in Minneapolis exceeded that in St. Louis by 149,000 workers.

Figure 1 displays the uneveness in employment, with the downturn from 1980 to 1982 and subsequent sharp gains standing out. This can be seen more clearly in Figure 2, which shows the actual annual growth rates. The first bar indicates the annual employment growth for the U.S., while the second and third bars refer to the nine cities combined and Omaha respectively.

Figure 2 shows three distinct periods. Omaha's annual employment growth between 1973 and 1975 was slightly better than that for the Plains cities. This was followed by three years where Omaha's employment lagged behind the average for the Plains cities. Omaha's employment growth has bettered the Plains

FIGURE 1
Total Nonagricultural Employment

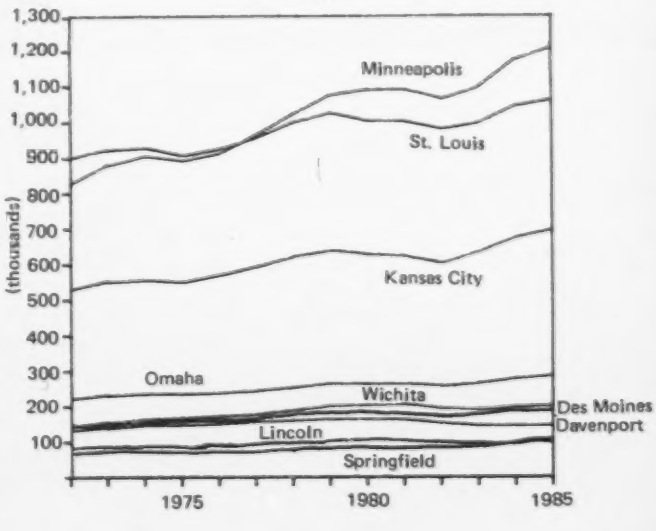
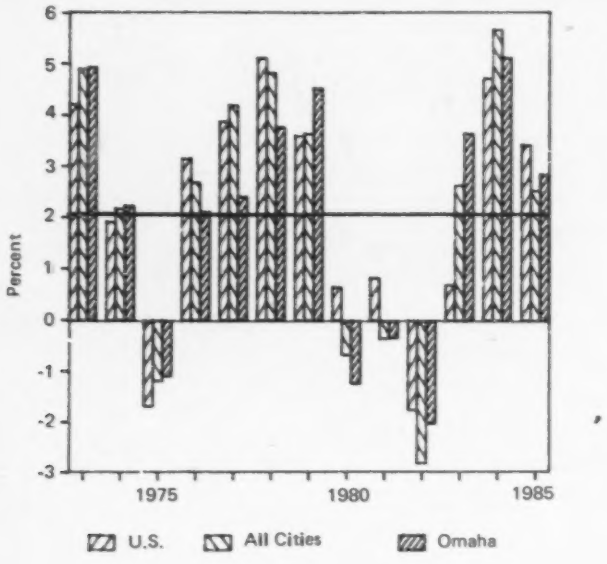


FIGURE 2
Annual Percent Change in Total Nonagricultural Employment



cities record in four of the last five years. Omaha's 1984 gain of more than five percent exceeded any of its other gains for the period examined, but fell short of the Plains cities gain, which was also highest for the period examined. Its gains for the last three years well exceeded its annual average growth of just over two percent (shown by the horizontal line).

As mentioned earlier, Omaha's employment grew slightly slower than the Plains cities between 1973 and 1985. As a result, Omaha's share of Plains employment declined. Omaha's favorable recent performance, however, should be kept in mind when interpreting these results and assessing Omaha's current situation.

INDUSTRY GROWTH

Table 1 shows 1985 industry employment levels and growth between 1972 and 1985 for each of the geographic areas included in the study.* The first column refers to total employment, while the breakdown by industry is shown in the remaining columns. Looking at the all cities row of the table, we see the previously reported 31.8 percent increase in employment. The 74.6 percent growth in the service sector more than doubled this rate and was by far the largest. The finance, insurance, and real estate sector (52 percent), as well as the trade sector (39.5 percent), also exceeded the total employment gain. A similar result is found for U.S. employment growth in these sectors, as shown in the last row of Table 1.

Omaha's 1985 industry employment levels are shown in Table 1, while the levels for the entire 1972 to 1985 period are graphed in Figure 3. Rapid increase in the service sector is the dominant feature in Figure 3. Employment in services was more than 13,000 workers below the trade sector's employment in 1972. By 1985, however, the service sector surpassed trade to become the largest Omaha industry. This occurred even though the trade sector posted substantial gains. The sharp growth in the finance, insurance, and real estate industry is another noticeable feature of Figure 2, as is the decline in manufacturing.

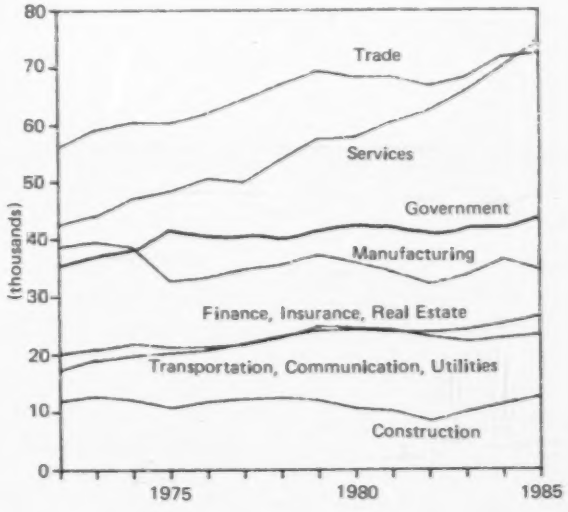
Omaha's growth in the service sector (76.2 percent) was more than two and one-half times its total employment growth rate (30.2 percent), while growth in finance, insurance, and real estate (55.2 percent) also far exceeded its overall rate. Omaha's employment gain in trade (29.6 percent), however, was slightly under its total growth rate. Manufacturing employment showed the smallest sector gain over the period, with a 1.9 percent jump in the Plains cities between 1972 and 1985, a 1.4 percent increase in the U.S., and an actual decline of 10.6 percent in Omaha.

INDUSTRY MIX

We can use the above results partially to assess Omaha's employment situation relative to other Plains cities or the U.S. by addressing the following question: Do the fastest growing industries (i.e., services; finance, insurance, and real estate; and trade) make up a relatively large share of Omaha's employment compared to that of the Plains cities?

If the fastest growing sectors make up a relatively large share of Omaha's total employment compared to the other Plains cities, then as long as the sector growth trends continue, Omaha will be relatively better off. Although not shown in Table 1, sector shares can be computed from the information provided. The service sector's share of Omaha's total employment is 25.9 percent, compared to 23.4 percent for all Plains cities, and 22.4 percent for the U.S. Similarly, Omaha's trade sector accounts for 25.1 percent of its employment, which just exceeds the Plains cities trade share of 25 percent and the U.S. trade share of 23.7 percent. The finance, insurance, and real estate sector makes up 9.2 percent of Omaha's employment, 7.1 percent of Plains cities employment, and 6.1 percent of U.S. employment. The slowest growing sector, manufacturing, makes up 11.9 percent of Omaha's employment,

FIGURE 3
Omaha Employment by Sector



*Due to its small size, the Bureau of Labor Statistics combines employment in the mining sector with the service sector for some cities and with the construction sector for other cities.

TABLE 1
1985 Employment by Sector
(in thousands)
Percent Change 1972 to 1985 Shown in Parentheses

	Total Nonagricultural	Construction	Manufacturing	Transportation, Communication, Utilities	Trade	Finance, Insurance, Real Estate	Services	Government
Davenport	147.9	4.6	32.1	8.1	40.8	7.3	28.2	26.9
	(11.9)	(-23.3)	(-24.1)	(14.1)	(32.0)	(30.4)	(54.9)	(21.2)
Des Moines	192.3	7.7	22.6	12.4	50.5	24.7	45.8	28.7
	(33.2)	(6.9)	(-13.1)	(22.8)	(43.1)	(56.3)	(72.8)	(22.1)
Kansas City	698.3	31.0	119.4	53.0	184.3	51.8	154.6	103.8
	(31.9)	(14.4)	(-0.2)	(5.8)	(40.8)	(52.4)	(70.3)	(36.0)
Lincoln	104.7	3.9	12.9	6.0	24.0	7.6	21.1	29.2
	(31.7)	(2.6)	(8.4)	(13.2)	(42.9)	(33.3)	(66.1)	(25.9)
Minneapolis	1,213.0	46.6	257.6	67.4	298.0	84.7	295.4	162.5
	(46.6)	(25.9)	(26.2)	(20.1)	(46.4)	(65.1)	(92.2)	(33.3)
Omaha	288.7	12.8	34.5	23.5	72.6	26.7	74.7	43.7
	(30.2)	(7.6)	(-10.6)	(17.5)	(29.6)	(55.2)	(76.2)	(22.8)
Saint Louis	1,063.9	52.7	224.1	72.7	254.4	65.1	255.2	135.8
	(18.3)	(47.6)	(-14.2)	(11.7)	(29.5)	(37.6)	(61.9)	(2.3)
Springfield	99.0	4.2	19.5	6.2	27.4	4.6	24.3	12.6
	(49.5)	(16.7)	(6.0)	(29.2)	(62.1)	(76.9)	(122.9)	(40.0)
Wichita	204.3	9.4	54.9	9.9	50.1	10.8	41.2	24.9
	(42.0)	(30.6)	(33.6)	(20.7)	(60.1)	(56.5)	(59.1)	(13.2)
ALL CITIES	4,012.1	172.9	777.6	259.2	1,002.1	283.3	940.5	568.1
	(31.8)	(23.9)	(1.9)	(14.3)	(39.5)	(52.0)	(74.6)	(21.8)
NEBRASKA	650.3	26.5	88.9	43.7	166.7	45.2	142.4	135.2
	(25.8)	(-1.5)	(4.6)	(18.4)	(24.8)	(47.7)	(61.8)	(18.3)
UNITED STATES	97,699	4,662	19,426	5,300	23,194	5,924	21,930	16,295
	(32.6)	(19.9)	(1.4)	(16.7)	(45.4)	(51.6)	(78.6)	(22.2)

19.4 percent of the Plains cities employment, and 19.9 percent of the U.S. employment, which also places Omaha in a favorable position relative to the other Plains cities and the U.S.

To summarize the implications of Omaha's industry mix, the fastest growing industries make up a relatively larger portion of Omaha's total employment compared to the Plains cities and the U.S. The slowest growing industry makes up a relatively smaller share of Omaha's employment compared to the Plains cities and the U.S. Within Omaha, the fastest growing industry, services, is also the largest. These are all favorable aspects of Omaha's employment composition.

QUANTIFYING EMPLOYMENT CHANGE COMPONENTS

The "shift share" technique will be used to separate Omaha's employment change into three components in order to determine the magnitude of change attributable to (1.) Omaha's participation in the growth of the Plains economy, (2.) Omaha's industry mix, and (3.) Omaha's share of Plains cities employment.* Omaha's employment growth is compared to Plains cities growth as a standard of reference. Similar results are obtained with the U.S. as the reference, although they are not shown here.

The three components of employment change are identified in Table 2 as "Plains Cities Growth," "Industry Mix," and "Omaha Share." The Plains cities growth component shows the change in the area's employment that would have occurred from 1972 to 1985 if Omaha had grown at the same rate as all industries employment for the Plains cities. The 1972 to 1985 percent change in total nonagricultural employment for the Plains cities is applied to the 1972 employment for each industry in Omaha in order to show growth attributable to Plains growth factors.

The industry mix factor shows whether Plains cities employment in a particular industry grew faster or slower than the Plains cities all industry average. This factor will show whether Omaha's industrial mix contributed to or diminished growth in total employment. In order to calculate the industry mix factor, the difference between a particular Plains cities sector growth rate and the Plains cities all industries growth rate is applied to Omaha's 1972 employment. A positive industry mix factor signifies a relatively rapidly growing industry, whereas a negative factor indicates that an industry grew less rapidly than the Plains all industries average.

The final component, Omaha share, indicates whether employment in a particular sector for Omaha grew faster or slower than Plains employment in that sector. The difference between 1972 to 1985 growth rate of Plains employment in an industry and the growth rate for that industry in Omaha is applied to the 1972 employment in the sector in order to determine the regional share factor.

The sum of the three components equals the total change in employment from 1972 to 1985 for each sector, and the sum for all the sectors equals the change in all industries employment for Omaha. The signs of the three factors for a particular industry may be the same and mutually reinforcing or the signs may differ, indicating that the factors offset each other to some extent.

The Plains cities growth column indicates that 70,501 employees would have been added to Omaha's employment if each of Omaha's industries had grown at the same rate as total employment in the Plains cities. As we have seen, the various Plains industries did not grow at the same rate. Some Plains industries grew faster and some grew slower. Cities that had relatively more workers in fast growing industries were better off than the cities

(continued on page 6)

*For a shift share analysis of Omaha employment between 1960 and 1976, see Stepp, Vicki, "Perspectives on the Omaha Work Force," *Business in Nebraska*, 57, No. 9 (November 1977).

Review and Outlook

The physical volume index of the Bureau of Business Research expanded 0.5 percent March-to-April in real nonagricultural economic activity. Because of the unavailability of April 1986 cash farm marketings data, economic activity in the ag sector is not reported in this issue.

A strong surge in April construction activity (+3.7 percent) was mainly responsible for the gain in nonagricultural output. All other nonfarm sectors of the Nebraska economy (manufacturing, distributive, and government) registered identical 0.4 percent increases March-to-April in real output.

Prices of agricultural commodities continue their downward movement. The index of prices received by Nebraska farmers (seasonally adjusted) declined 3.7 percent in April 1986, remaining 8.7 percent below the index level of April 1985. Nationally, the farm price index fell 1.8 percent during April 1986 and was 8.8 percent below the April 1985 index.

Dollar volume net taxable retail sales rose 4.7 percent on a year-to-year basis of comparison during April 1986 to $776.7 million. Nonvehicle sales were up 5.1 percent ($676.3 million), while motor vehicle sales recorded a modest increase of 1.8 percent. When inflation is taken into account, total net taxable retail sales expanded 7.0 percent during April 1986. Inflation-adjusted sales advanced more than dollar volume sales because the commodity component of the consumer price index and the motor

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

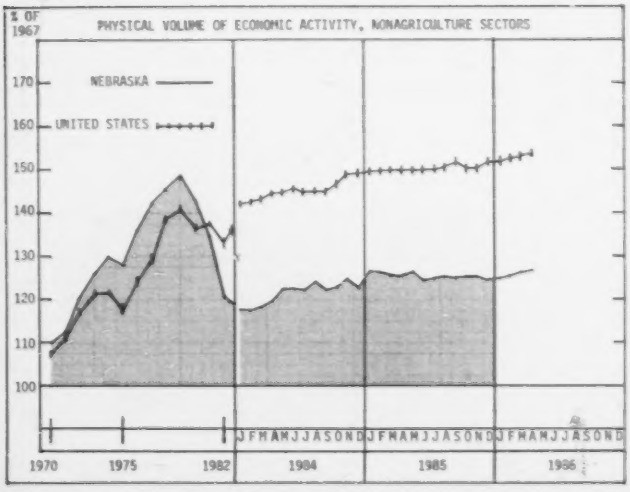
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

April 1986	Current Month as Percent of Same Month Previous Year		1986 to date as percent of 1985 to date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	103.2	104.0	102.8	104.7
Construction	96.4	104.3	95.7	105.4
Manufacturing	95.1	97.3	95.2	97.6
Distributive	104.3	106.0	103.7	106.8
Government	111.8	105.3	111.8	105.9
Physical Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	101.1	102.8	100.0	102.4
Construction	92.5	100.1	92.1	101.6
Manufacturing	97.7	100.0	96.5	98.9
Distributive	102.6	104.3	101.0	103.9
Government	102.8	102.4	103.1	102.5

2. CHANGE FROM 1967

April 1986	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	na	na
Agricultural	na	na
Nonagricultural	380.0	470.6
Construction	283.4	475.0
Manufacturing	356.3	314.6
Distributive	391.3	555.9
Government	422.3	475.9
Physical Volume	na	na
Agricultural	na	na
Nonagricultural	126.9	153.6
Construction	76.6	128.4
Manufacturing	147.3	126.8
Distributive	120.3	170.9
Government	153.7	153.9

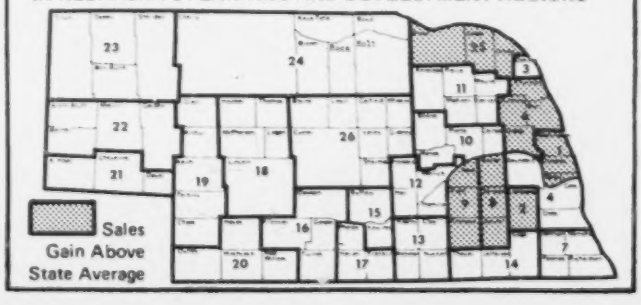


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	April 1986 as percent of April 1985	April 1986 as percent of April 1985	1986 to date as percent of 1985 to date
The State	105.1	104.7	104.5
1 Omaha	107.0	106.8	108.4
Bellevue	107.9		
Blair	107.4		
2 Lincoln	105.6	104.9	107.2
3 So. Sioux City	120.6	116.3	105.2
4 Nebraska City	103.5	101.1	104.3
6 Fremont	107.2	105.7	107.4
West Point	110.9		
7 Falls City	96.4	104.9	105.0
8 Seward	126.1	107.3	108.6
9 York	103.8	102.4	106.0
10 Columbus	102.2	106.3	105.0
11 Norfolk	106.1	105.8	102.3
Wayne	117.6		
12 Grand Island	101.8	100.1	100.6
13 Hastings	101.4	104.3	104.4
14 Beatrice	101.3	102.6	104.2
Fairbury	104.7		
15 Kearney	104.8	104.0	103.5
16 Lexington	97.6	96.2	95.7
17 Holdrege	92.4	94.0	97.1
18 North Platte	102.0	102.1	103.8
19 Ogallala	93.3	91.6	95.6
20 McCook	110.7	105.6	102.8
21 Sidney	103.8	93.5	92.3
Kimball	77.2		
22 Scottsbluff/Gering	100.3	100.5	102.7
23 Alliance	105.9	102.0	99.0
Chadron	108.6		
24 O'Neill	97.2	101.0	101.0
25 Hartington	118.2	108.5	108.0
26 Broken Bow	98.0	96.7	101.1

[1] See region map below.
[2] Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1986 YEAR TO DATE AS PERCENT OF 1985 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



(continued from page 4)

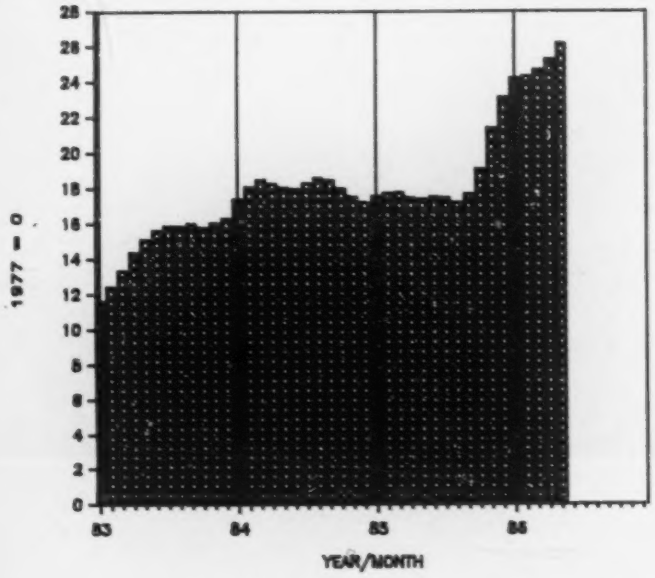
vehicle price index both declined in April 1986 compared to index levels of April 1985.

Compared to April 1985 business activity, nineteen of twenty-six cities listed by the Bureau of Business Research registered positive changes in business activity during April 1986. Seward and South Sioux City, with soaring retail sales gains (over 20 percent), led the list of cities with business activity expansions of 17.4 percent and 16.8 percent, respectively. Sizable April advances in building activity elevated Falls City (+12.1 percent) and Broken Bow (+10.6 percent) toward the top of the list of Nebraska cities with positive changes in business activity. The Lincoln and Omaha business activity indexes both increased 5.1 percent. The state gain in business activity was 3.9 percent.

Nebraska's composite index of leading indicators rose 0.7 percent in May, representing the ninth consecutive monthly increase in the index. May's increase was the strongest since January and points to the likelihood of continued growth in the state's economy during the remainder of 1986.

The growth in May's leading index primarily was due to an 8.7 percent gain in the residential construction component. Overall, four of the five components of the leading index improved in May.

Nebraska Composite Leading Index



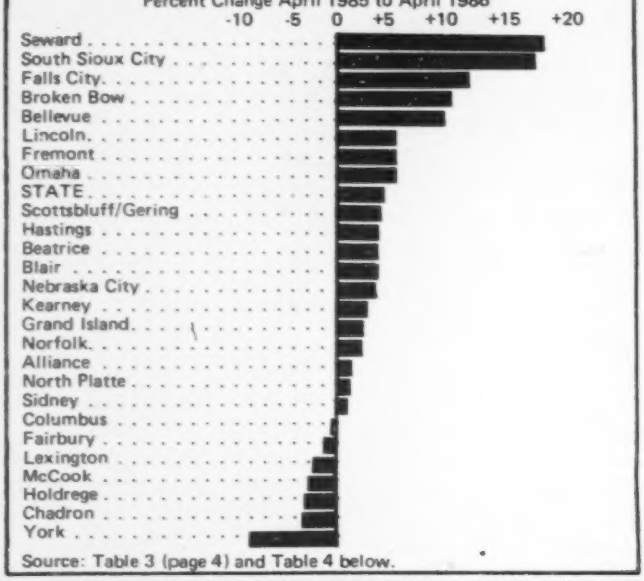
CHARLES L. BARE and JEROME A. DEICHERT

5. PRICE INDEXES

April 1986	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	325.3	101.6	102.7
Commodity component	281.2	98.0	100.3
Wholesale Prices	297.9	96.3	98.0
Agricultural Prices			
United States	219.0	91.2	90.9
Nebraska	210.0	91.3	91.2

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

CITY BUSINESS INDEX
Percent Change April 1985 to April 1986



Source: Table 3 (page 4) and Table 4 below.

4. April 1986 CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	102.4	91.9	95.9
Alliance	99.6	62.9	98.5*
Beatrice	100.8	132.3	96.5
Bellevue	102.3	236.8	86.3
Blair	102.2	64.8	90.5*
Broken Bow	101.6	782.1	105.6
Chadron	104.6	9.3	108.5
Columbus	101.5	53.9	100.3
Fairbury	103.2	28.2	97.0
Falls City	101.7	1,228.5	91.9
Fremont	103.8	85.7	77.0*
Grand Island	102.4	87.2	78.3
Hastings	102.6	111.4	NA
Holdrege	100.6	68.4	98.8
Kearney	102.5	70.3	95.9
Lexington	101.9	49.3	80.7
Lincoln	102.7	110.2	96.7
McCook	103.9	10.0	97.7
Nebraska City	101.3	100.8	105.3*
Norfolk	102.7	54.2	109.2
North Platte	101.7	69.3	99.7
Omaha	102.3	98.9	94.9
Scottsbluff/Gering	102.8	127.9	75.5
Seward	102.2	214.1	102.8
Sidney	102.4	53.8	104.5
So. Sioux City	105.4	239.7	98.0
York	100.9	8.0	93.6

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

TABLE 2
Disaggregation of Omaha Employment Change: 1972 to 1985

Industry	Omaha 1972 Employment	Omaha Employment Changes Related to: Plains Cities Growth	Industry Mix	Omaha Share	Total Change
Construction	11,900	3,784	-935	-1,949	900
Manufacturing	38,600	12,275	-11,553	-4,821	-4,099
Transportation, Communication, and Utilities	20,000	6,360	-3,502	642	3,500
Trade	56,000	17,808	4,340	-5,550	16,598
Finance, Insurance, and Real Estate	17,200	5,470	3,471	559	9,500
Services	42,400	13,483	18,143	674	32,300
Government	35,600	11,321	-3,567	345	8,099
TOTAL	221,700	70,501	6,393	-10,099	66,798

where the slow growing industries accounted for a relatively large share of total employment. The industry mix column shows the effects on Omaha's employment due to the different rates of growth in the Plains industries. Those industries that grew more slowly in the Plains cities than the area's total employment have a negative sign, while the relatively fast growing industries have a positive sign. If Omaha's industry mix were the same as the Plains, the effect shown in the last row of the industry mix column would be zero. Instead, we see that Omaha benefitted by a gain of 6,393 employees due to its favorable industry mix.

For some industries, Omaha's employment grew faster than employment in the corresponding Plains sector. Other Omaha industries grew more slowly. The Omaha share column quantifies the impact of differential rates of growth on employment. If each of Omaha's industries grew at the same rate as the corresponding Plains industry, the total effect of the share component (last row) would be zero. We see that the decrease in Omaha's manufacturing employment and Omaha's slower trade employment growth (compared to the Plains cities) were the major contributors to the negative share component. Caution is warranted in interpreting this result. As we saw earlier, Omaha's total employment growth has outperformed the Plains cities in four of the last five years. This indicates that the share component is negative due to events prior to 1981.

SUMMARY

The following are the most important points of this study:

Between 1972 and 1985, Omaha's employment increased 30.2 percent, which is just less than the Plains cities (31.8 percent) and the U.S. (32.6 percent) rates.

Omaha's total employment growth record has bettered the Plains cities in four of the last five years, and its gains for the last three years well exceeded its annual 1972 to 1985 average growth of just over two percent.

Omaha's growth in the service sector (76.2 percent) was more than two and one-half times its total employment growth rate (30.2 percent), while growth in finance, insurance, and real estate (55.2 percent) also far exceeded its overall rate.

With regards to Omaha's industry mix, the fastest growing industries in the Plains cities and the U.S. make up a relatively larger portion of Omaha's total employment compared to the Plains cities and the U.S. The slowest growing industry makes up a relatively smaller share of Omaha's employment compared to the Plains cities and the U.S. Within Omaha, the fastest growing industry, service, is also the largest. These are all favorable aspects of Omaha's employment composition.

Omaha's performance in the manufacturing and trade sectors between 1972 and 1985 compared unfavorably with the Plains cities and were the primary contributors to the negative share component that was estimated. Since Omaha's total employment growth outperformed the Plains cities in four of the last five years, this result is primarily due to events prior to 1981.

DOUGLAS O. LOVE

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BUSINESS IN NEBRASKA

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This issue focuses upon agriculture subsidies and how they may impact the Nebraska economy. The issue begins with a piece by Nothdurft *et al.* examining the effects of subsidies on innovation. It is Norhdurft's conclusion that subsidies discourage innovation and the entrepreneurial spirit in agriculture.

Professors Frederick and Johnson present the case for subsidies. They argue for agriculture subsidies and what they do for the Nebraska economy.

Pursell argues that agriculture subsidies have insulated Nebraska agriculture and nonagriculture producers from market signals and also have reduced innovation and the entrepreneurial spirit in Nebraska's economy, both its agriculture sector and its nonagriculture sector.

The purpose of this issue of *Business in Nebraska* is not to answer the question of agriculture subsidies and their impact upon the Nebraska economy. The purpose is to encourage Nebraskans to explore the implications of agriculture subsidies and their impact on the Nebraska economy.

AGRICULTURE, MARKETS, AND INNOVATION: THE REAL PROBLEMS

"The lack of (federal price) supports increases efficiency by forcing us to rely solely on innovation and marketing."

William Barker
Monterey County (CA) Farm Bureau Association

It is no coincidence that the farmers in deepest trouble in the current farm crisis are those whose products are covered by federal commodity programs, particularly those involved in the production of export grains. At the root of the farm problem is a commodity production and marketing system that, while it reduces uncertainty and encourages innovations in production, artificially protects markets and strongly discourages farmers from concerning themselves with the changing tastes of consumers and markets. Yet it is the judgment and tastes of consumers that ultimately determine the value of what farmers produce. As the pressure on states to formulate new farm policies increases, it is crucial to understand the flaws in this system.

The Problem of the Protected Market

Agricultural development, like all economic development, proceeds through the process of innovation--the discovery of new products, new ways of producing old products, and new markets. The viability of each innovation is determined in the marketplace by consumers who are the ultimate judge of its value. But for a significant segment of American agriculture, this process is short-circuited by federal farm programs that make it more difficult for farmers to act as efficient businesspersons by overriding basic market signals. The purpose of price supports and acreage limitations was to reduce the risk farmers faced because of shifting commodity prices. The unintended consequence has been dramatic growth in the production of the crops protected by these programs, growth that has outstripped both domestic and international demand.

Open markets send signals to producers about how consumers value different products and about trends in consumer tastes or preferences. Federal support programs, in effect, screen producers from this information by substituting a mechanism that guarantees the farmers both a consumer (in the form of the federal government) and a price. One of the signals the government sends in the place of the market is that anyone can farm crops covered by these programs and be guaranteed a living. Caught in the embrace of these programs, farmers act as if they had no choice but to continue to produce the same crop they always produced and to sell it to the federal government whenever the market price falls too low. True market signals influence their behavior only to the extent of determining to whom they will sell, not what or whether to produce. (Many USDA marketing orders have the same effect; e.g., those for oranges.)

A protected system creates overproduction, uncontrollable government cost, marginal incomes for participants, and the perpetuation of inefficient producers at the expense of efficient producers and the taxpayers in general. Furthermore, this artificial market is not passive. Throughout the 1970s boom, it sent "plant" signals to the nation's grain producers, who expanded production knowing that even if exports slowed, the federal government would buy the surplus and their land would retain its value. Unfortunately, only half of the formula was correct; many of these same aggressive farmers face severe financial difficulty as their land values--and their equity--continue to drop.

The Problem of the Protected Farmer

The ultimate test of any enterprise is whether customers are prepared to buy the final product at a price which allows the producer to meet expenses and earn a profit large enough to stay in business. But for farmers who raise crops covered by federal farm programs (whether they actually participate in them is irrelevant),

this testing ground is largely absent. Certainly they struggle with the elements to wrest sufficient harvest to cover their operating loan and pay for other expenses as well. But producing goods within a budget despite the vicissitudes of sudden changes in input costs, labor disputes, technical difficulties, and other problems is a challenge that faces all businesses.

Most other businesses, however, also face the continuous problem of finding customers for their products and of adapting their production systems and products as customer preferences change, as the products of their competitors improve, and as new technologies become available. Farmers selling a supported crop do not face this problem, but they should. No business can continue producing a commodity valued less by consumers than it costs to produce unless it receives a subsidy that protects it from true market conditions. Given the choice of competing for customers' dollars or producing for a guaranteed buyer, it is not surprising that many farmers choose to farm the subsidy.

The farmer thus protected faces less risk than otherwise may be the case and receives less reward. With too many farmers, both efficient and inefficient, producing too much of the commodities covered by federal supports, surpluses grow, prices decline, and incomes are held down. Farmers who are failures can not fail, and farmers who are winners can not win. Even in periods of moderate interest rates and inflation, the rewards of farming the subsidies are meager; in tougher times, they are nearly nonexistent.

Subsidized credit has the same general effect. Subsidized loans keep in business many farmers who in any other business would have failed. By making it possible for inefficient or unwise farmers to stay in business, such programs make it more difficult for the efficient farmers to reap the rewards of their efforts and reduce the incentives for innovation.

Government efforts to prevent failure have other consequences that seldom are considered fully. Trying and failing are crucial to any healthy industry. Those that fail are the enterprises that can not produce goods as cheaply as their competitors or who are less alert than their competitors to changing market conditions or new market opportunities. Unless ineffective producers are weeded and new producers are allowed into the market, innovation will occur only slowly and consumers will pay higher prices for goods. Failure and success are both integral parts of a process resulting in a more efficient allocation of resources. Federal crop and credit subsidies that try to ensure against failure also may reduce the chances of success by short-circuiting this process.

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ROGER J. VAUGHN
MARK POPOVICH*

*Excerpted from "Creating an Entrepreneurial Farm Economy" by William Nothdurft, Roger Vaughn, and Mark Popovich. Available from the Council of State Policy and Planning Agencies, 400 North Capitol, Suite 291, Washington, D.C. 20001 at a cost of $5.00. Phone 202/624-5386 for more information.

THE CASE FOR FARM PRICE AND INCOME SUPPORTS

One cannot deny that compelling arguments can be made against the federal government's farm price and income support programs.

Severe financial stress in the farm sector in the 1980s, however, has made these programs more important to producers and their families than at any time since the 1930s. For example, in the 1982-1984 period, direct government payments amounted to about 60 percent of all net farm income generated in Nebraska. In 1986, government assistance is likely to make an even more important contribution to net farm income.

In what appears to be an irony--if not an outright contradiction--some observers blame agriculture's economic woes on these same support programs. Furthermore, it is argued that termination of these programs would reduce financial stress. In actuality, a wide array of factors have contributed to inadequate farm income, including a rapid buildup in farm debt during the euphoric, expansionary years of the 1970s--a period when support programs were used relatively little.

In our judgment, there are three major reasons why an adequate price and income support system should be kept in place.

THE NEED FOR AMPLE PRODUCTION CAPACITY

Most Americans take for granted an adequate supply of wholesale food at reasonable prices. But few citizens appreciate the role that public price and income supports play in assuring that supply. In the absence of such support, our food system would behave much differently.

Although not all commodities are supported, commodities such as wheat and feed grains are supported and form the foundation for much of what we eat--bread, red meat, poultry, eggs, and milk. Consumers want these food products without fail. Price and income supports provide assurance that production of foodstuffs will continue regardless of conditions in the general economy. Excess capacity, which can arise from such programs, serves to buffer the nation's food supply against intervention.

Like other consumers around the world, U.S. citizens also prefer that most foods come from domestic producers, even if they can be imported at a lower cost. Self-sufficiency in the production of one of the essentials of life is very important. In the event of war or other international disturbance, no one wants to worry whether food supplies will be adequate.

For many years citizens have enjoyed the luxury of a stable food supply delivered at a cost that makes U.S. food expenditures lower relative to family income than in any other country of the world. Why change a system whose results are that satisfactory?

THE NEED FOR STABILITY

Prices of agricultural commodities are affected by an extraordinary array of factors, including weather, pests, conditions in

the general economy, and political and diplomatic relationships with other countries. In the absence of price supports, prices would move erratically up and down.

Conventional economic wisdom is that higher commodity prices induce more resources (land, labor, and capital) to be committed to an economic enterprise. Lower commodity prices should cause resources to leave that enterprise. Resources committed to agricultural production often have few good alternative uses, however, especially within a period of five years or less. Tractors and specialized equipment, for example, cannot be used for much other than farming. Similarly, most land is not well suited to alternative uses. Even those who farm (operators and laborers) often are not as productive as they move from farm to nonfarm occupations.

Prices, if left to the dictates of an open market system, could signal to producers that they ought to plant fencerow to fencerow one year, but plant nothing the next year. Both producers and consumers would suffer as producers sought to catch up with the latest market signal. About the time resources were committed to meet perceived shortages, it would be necessary to reduce commitments in response to commodity price weakness.

Don Paarlberg, former chief economist in the United States Department of Agriculture, summarizes what happens in the absence of price supports: "Temporary extremes in farm prices and farm income give erroneous production signals. Windfall profits and undeserved losses are the attributes of wild price gyrations."

SUSTAINING AGRICULTURE FROM GENERATION TO GENERATION

Food production will not go out of style. Another generation of food producers always will be needed. Citizens will benefit if those who produce foodstuffs do so as efficiently as possible.

In the absence of price and income supports, those producers who remain may not be the most efficient or innovative. Instead, the characteristic most likely to describe them is "debt free." These producers may be able to survive with $1.50 per bushel corn and $2.00 per bushel wheat. But they tend to be older producers and/or have smaller operations.

The question is whether society really wants to squeeze out younger, technically efficient producers who also tend to carry the most debt. That would seem to be the inevitable result if all price and income supports were abandoned. Just as significantly, will society benefit from having squeezed out many of today's innovative young farmers who otherwise would be producing the nation's food 25 years from now?

OTHER FACTORS

In addition, other aspects also enter into the debate over price and income support programs. Should this nation's agricultural producers, who responded to economic and political signals for expansion in the 1970s, now be called upon to bear the full brunt of economic consequences emerging from a totally different economic ballgame in the 1980s? Just what is society's obligation to a sector in which real net worth has fallen to approximately one-third of 1980 levels in several states (including Nebraska)?

There is also the question of whether or not we have moved beyond a point in economic history where an essentially free market agriculture can operate effectively. Will the world market actually respond as the free market advocates believe? The sluggishness of U.S. agricultural exports in recent months is cause for concern.

Finally, there are questions relating to societal interest in maintaining a particular farming and rural culture. If society as a whole continues to have such a preference pattern, then public support to the agricultural sector may be justified, regardless of economic efficiency or equity issues.

CONCLUSION

Although we present a case for farm price and income supports, this should not imply that current programs could not be improved. In an era of tight budgets and wide differences in the financial status of individual producers, an overriding question is whether the federal government is receiving good value for the dollars spent on support programs. New approaches to providing effective and equitable supply management and income support should be given careful consideration. Abandoning farm price and income supports seems infeasible. We advocate innovative programs that assure (1) a stable a high quality supply of food at reasonable prices, (2) a fair economic return to the producer, and (3) the long-term stewardship of natural resources and human resources in rural America. To do any less would cost all Americans in the long run.

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SUBSIDIES: HELP OR HINDRANCE TO FARMERS?

Agriculture subsidies have insulated Nebraska grain producers from the market for over 50 years. The cumulative effect appears to be a lessening in Nebraska's entrepreneurial spirit among both farmers and the business community. Nebraska agriculture and the agriculture of the Plains would find it traumatic to adjust to market-driven conditions. But subsidized agriculture--grain production, tobacco production, and dairy production--faces more difficulties than nonsubsidized vegetable and specialty foods production. Imagine the Nebraska grain farmer facing a market similar to that of the California cauliflower producer. On Monday, cauliflower was $10.00 per box; on Tuesday, it was $8.00 per box; and on Wednesday, it was $6.00 per box. Who knows

Nebraska's income and employment are above year ago levels, but lag national levels. Furthermore, real income and employment increases in the 1980s have been smaller than those in the 1970s. Nebraska's economy is growing, and its output is expanding--but it is not growing as rapidly as the nation, nor as fast as it was in the 1970s. Nebraska's relative position improved in the early 1970s, but has deteriorated relative to the nation in terms of both income and employment.

Chart 1 presents Nebraska and United States real personal income over the interval 1967 to 1985. Both increased with few interruptions. Nebraska's share of U.S. personal income is illustrated in Chart 2. This chart indicates that Nebraska personal income has averaged about .66 of one percent of total U.S. personal income since 1980. In 1973, Nebraska's share of national personal income was .75 of one percent. In the 1980s, Nebraska's

(continued on page 5)

Chart 1
Total Real Personal Income
U.S. and Nebraska
Annual, 1965 to 1985 (in 1972 Dollars)

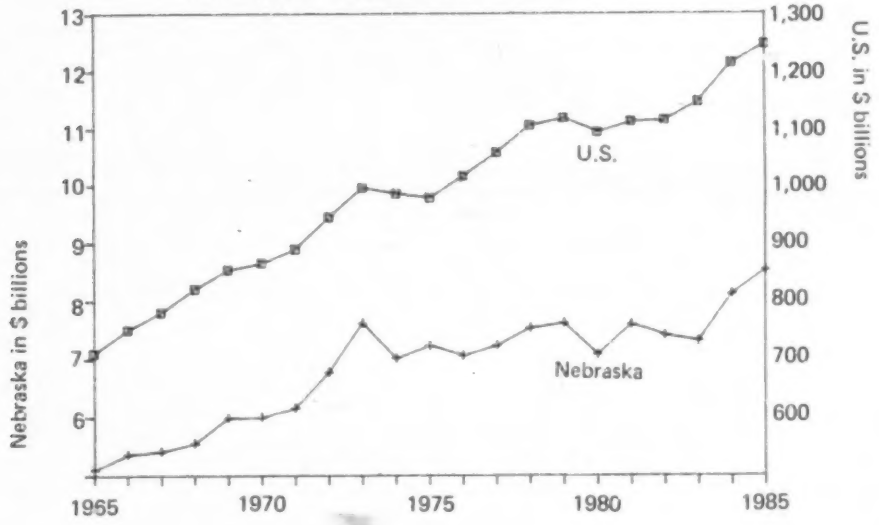
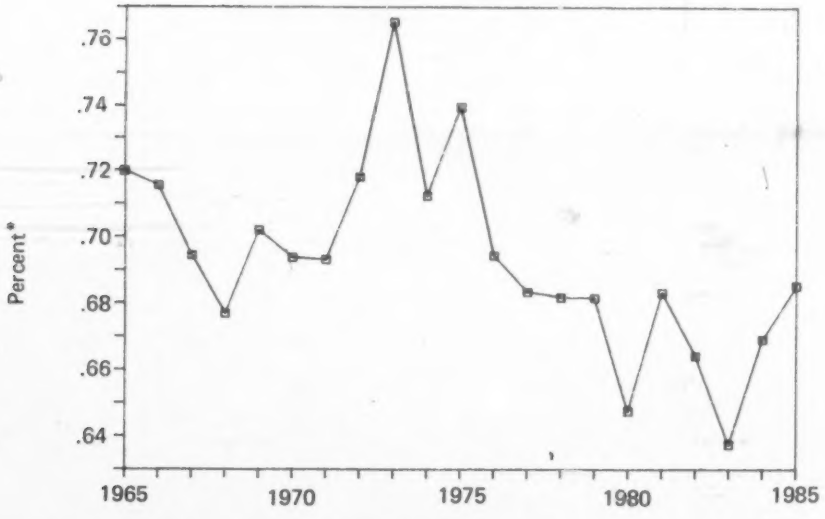


Chart 2
Nebraska Total Personal Income
as a Percent of U.S. Total Personal Income
Annual, 1965 to 1985 (in 1972 Dollars)



*Expressed as a percent of 1.0 percent of U.S. personal income

(continued from page 4)

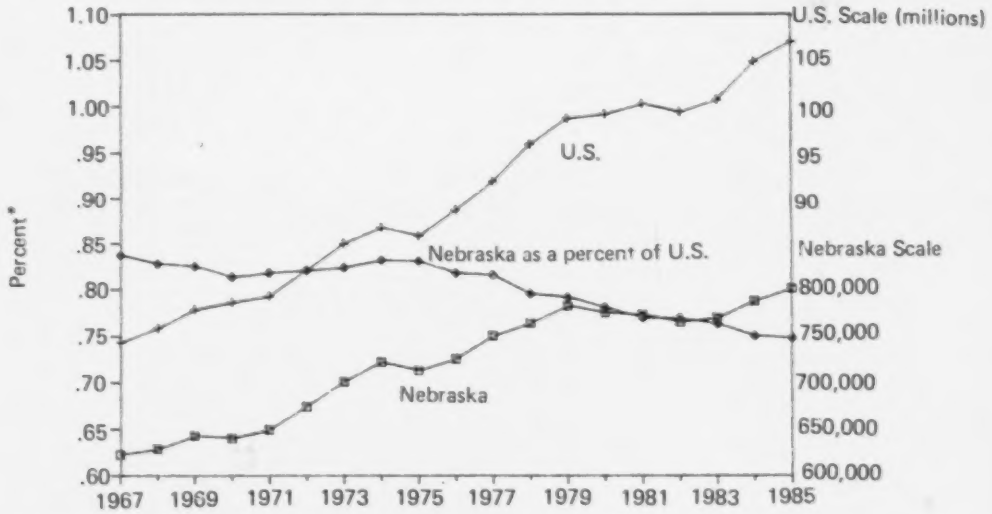
share of personal income has ranged from a low of .64 of one percent in 1983 to highs of .68 of one percent in 1981 and 1985. The relative deterioration in Nebraska's income may have been halted temporarily.

Employment shows the same general trends. National employment growth has been somewhat higher than employment growth in Nebraska (Chart 3). Employment in July 1986 in Nebraska was estimated at 795,000, 6,500 above July 1985 levels.

Since 1981, Nebraska's share of nonagricultural employment has declined from .70 of one percent to .65 of one percent (Chart 4). Again, it is important to keep in perspective the fact that the state's employment base is expanding, but at a much slower pace than the nation.

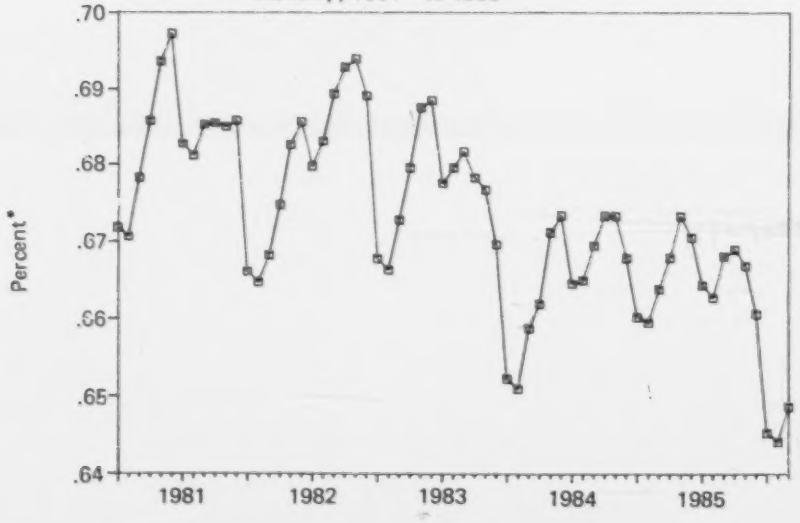
DONALD E. PURSELL

Chart 3
Nebraska and U.S. Annual Employment, 1967 to 1985



*Expressed as a percent of 1.0 percent of U.S. employment

Chart 4
Nebraska Nonagricultural Employment
as a Percent of U.S. Nonagricultural Employment
Monthly, 1981 to 1986



*Expressed as a percent of 1.0 percent of U.S. nonagricultural employment

what the price will be Thursday? If the cauliflower is ready, it has to come out of the fields and go into cold storage.

Not all California vegetable producers are economically viable. The industry is more viable, however, than Nebraska agriculture because it is innovative and able to change quickly--California vegetable production is not hampered by subsidies and grain price supports.

The entrepreneur is the driving force in the American economy of the 1980s (Drucker). This person receives information, processes it, and is able to react quickly to rapidly changing consumer demands and prices. The entrepreneur does not wait for price support or target levels to be set, nor does he/she wait for farm policy to be determined before making decisions. Nebraska agriculture and Nebraska's business community are not reacting in the same entrepreneurial spirit visible in vegetable and fruit producers or in the same entrepreneurial spirit as the computer or chip manufacturers in Silicon Valley.

The implications for Nebraska are clear. Painful as it may be, Nebraska must face withdrawal of agriculture subsidies. Reliance upon Washington for farm subsidies is destroying Nebraska's entrepreneurial spirit; Nebraska ranked 46th in terms of percentage change in new corporations over the interval 1980-1985 (*Wall Street Journal*, May 19, 1986). Nebraska was far below the national average of new ventures and ranked well below such states as South Carolina, Georgia, Mississippi, and Alabama. Five years after the removal of agriculture subsidies, there would be many different agriculture producers than there are today. These producers would be better innovators and entrepreneurs, more willing to take risks and move quickly into the most profitable proposition.

A prosperous Nebraska agriculture will be an agriculture sector which can adjust and adapt quickly, relying upon signals from the market instead of signals from Washington.

This does not imply there is no innovation in Nebraska agriculture or its business sector. There seems to be more innovation currently than in the recent past. It is my opinion that removal of subsidies would encourage more innovation and experimentation.

DONALD E. PURSELL

NEED INFORMATION?

The right data can give your business that crucial edge in making critical planning decisions.

The Bureau of Business Research is a repository of facts that are vitally important to Nebraska businesspersons. Bureau information stores contain population, employment, sales, income, and other databases from census, government, and other sources, including:

CITY POPULATION

This database reviews the changing populations of 137 Nebraska cities and towns from 1860 to 1980. Municipalities are given alphabetically by county.

NEBRASKA POPULATION

This list details the populations of Nebraska regions and counties from 1968 to 1984.

RETAIL SALES

Retail sales in Nebraska's regions and counties are presented from 1968 to 1983. Data for 1983 have been adjusted to reflect the October 1983 cut of sales tax on food.

STATE PERSONAL INCOME

Nebraska personal income totals on a county and on a regional basis are chronicled from 1968 to 1984.

These data are available in printout or diskette form at a nominal cost. To order, call or write: Bureau of Business Research, University of Nebraska-Lincoln, 200 College of Business Administration, Lincoln, Nebraska 68588-0406 or 402/472-2334.

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ECONOMIC DEVELOPMENT POSSIBILITIES IN NEBRASKA

Economic development has been defined as an increase in per capita income. Implicit in this definition are increases in employment opportunities, an enhancement of individual and societal wealth, and more capital per worker (capital deepening). To the economist, economic development means an increase in real per capita income, more productive employees, and more capital. Consumers have the option of increasing their savings and/or their consumption. Consumers can have higher bank balances, increase their purchases of housing, automobiles, food, clothing, etc.

This edition of *Business in Nebraska* looks at economic development from the perspective of actions that the state of Nebraska can undertake to improve the prospects for economic development. The article provides suggestions on specific issues that Nebraskans may consider. Many of the suggestions are controversial. It is the responsibility of the University, however, to raise important and even controversial issues--not to ignore them.

This issue begins with a review of income and employment trends over the past 20 years. Comparisons are made with national growth trends. The second half provides specific recommendations on an industry that offers important economic development opportunities for the state.

EMPLOYMENT AND INCOME TRENDS

Employment in Nebraska increased from 623,000 to 802,000 from 1967 to 1985, about two-thirds of the national employment gain. The distribution of this increase was similar to national patterns. Service employment has provided most of the growth since 1975.

Nebraskans' incomes have kept pace with national trends better than employment has. Nebraska real personal income increased from $11.0 billion in 1967 to $19.7 billion in 1985, a gain of 79.0 percent. Over the same interval, U.S. personal income jumped 82.0 percent, from $1,579 billion to $2,873 billion.

Over an extended interval, the Nebraska economy expanded, but at a slower rate than the national economy. Since 1981, however, Nebraska employment growth has not done as well relative to U.S. employment growth as it did in the 1970s. From 1981 to 1985, employment growth in Nebraska was only one-fifth that of the nation. Income has continued to expand at 80 to 90 percent of the national average growth rate, despite the relatively poor performance of employment.

The distribution of this employment growth has created problems for Nebraskans. Construction, manufacturing, and farm jobs are declining in number, but service jobs continue to expand in telecommunications, insurance, and business services. Unless a person is particularly versatile and able to work in manufacturing, construction, and services, employment opportunities are likely to be restricted compared to what they were in the 1970s. All projections indicate the trends that led to development in the early 1980s will continue into the 1990s. Service jobs will expand more rapidly than manufacturing jobs; construction and farm-related employment opportunities will expand very little and, in some cases, will decline over the next ten years. This suggests Nebraska should concentrate its economic development efforts in the rapidly growing service components of the economy. Note that the emphasis here is concentrated--no exclusive strategy is envisioned.

THE INSURANCE INDUSTRY A POTENTIAL FOR ECONOMIC DEVELOPMENT

The insurance industry offers Nebraska potential for growth and development. The industry is larger and more concentrated in Nebraska than in neighboring states. More than 20,000 persons are employed in the insurance industry in Nebraska. Insurance employment and earnings increased more rapidly in Nebraska than nationwide from 1965 to 1984. This concentration suggests the possibilities of cost advantages for the industry (*The Economic Impact of the Nebraska Insurance Industry*, Bureau of Business Research, University of Nebraska-Lincoln, 1985). These trends are summarized in Table 2.

There are several possible methods to attract the insurance industry. Regulation could be relaxed, but consumers may suffer. Taxes could be reduced, but could they be replaced? Assistance and cooperation between industry, government, and the University may help in promoting the industry.

This report will examine an approach to the industry combining a slight reduction of taxes and promoting an increased degree of cooperation between the public, private, and education sectors.

TAXATION

First consider a reduction in the premium tax collected for the state as a catalyst to encourage development of the industry in the state. By making it attractive to do business in Nebraska and by advertising the state's advantages, some firms may consider movement of a home office or a branch office, an expansion of

an existing office, or consolidation of offices in Nebraska. Reduction in the premium tax should be viewed as a public relations tactic to extol the reasons why the insurance industry could prosper in Nebraska. For example, potential Nebraska advantages include office rents that are less expensive in Nebraska than in major metropolitan areas. Lower rents provide Nebraska an important advantage. Furthermore, Nebraska has a labor force of above average educational attainment, an important factor of production for the insurance industry.

Nearly three-quarters of Nebraska's labor force have completed high school, compared to two-thirds nationally. Its productivity should be slightly higher than average because of its educational achievements. A large number of data processors, clerical workers, and managers is required by the insurance industry, and Nebraska should compete favorably with major metropolitan areas such as Boston, New York, Philadelphia, Chicago, Miami, and others. Eastern financial markets require a presence in these centers, but there are policy servicing functions that can be done efficiently in Nebraska. A reduction in the premium tax would capture the industry's attention.

Let us consider the following hypothetical example of how a reduction in the premium tax may promote economic development. The premium tax currently brings in approximately $28.0 million. For purposes of discussion, assume the tax is reduced by $2.0 million. This may be sufficient to attract the industry's attention. Assume the effort is successful, and the industry adds 3,500 employees in Nebraska. Using information from 1983 individual income tax returns, the average return for a person filing with tax liability was $572 in 1983. Because of inflation in tax rate increases, this figure was estimated in 1986 to be approximately $600. Additional income tax receipts of $2.1 million would be generated from increased insurance employees in the state.

Sales tax receipts also would expand if an additional 3,500 persons were employed. In 1985, sales tax receipts totaled about $320 million net to the state or about $200 per capita. If each of the 3,500 employees came from a family of 3.5 persons, $2.4 million in additional sales tax receipts would be generated. Additional taxes would be raised through collections on liquor, gasoline, additional premium taxes on insurance written, and other miscellaneous sources.

In this hypothetical example, reduction in the premium tax is assumed to generate additional employment in the industry in Nebraska. This additional employment means additional jobs, more sales and income tax collections, and an increase in miscellaneous tax collections. Of course, it is unlikely that the change in premium tax collected will work precisely as presented in Table 1. Political decision makers must decide if the advantages in reducing the premium tax outweigh the disadvantages.

TABLE 1

Potential State Tax Collection Increases
Resulting From 3,500 Additional Insurance Employees

Income Tax	$2,100,000
Sales Tax	$2,400,000
Total	$4,500,000
Premium Tax Reduction	-$2,000,000
Net Gain	$2,500,000

Cooperation among the major actors and assisting the insurance industry are functions to be assumed by the state and the University, with the industry as a partner. Development success in the United States and Japan (incidentally, Japan is the model) involves cooperation and mutual assistance among the government, industry, and education.

The University of Nebraska could enhance the prospects for the development of the insurance industry by providing monies to attract additional prominent faculty to teach, to research, and to work with the insurance industry. For approximately $250,000, the University could establish a center for insurance development. It could attract additional experts in insurance and actuarial science to work with the industry. An insurance center at the University of Nebraska could offer expertise in insurance marketing, information processing, and continuing education courses. Nebraska carriers and agents could receive more course work than they now receive in Nebraska. Non-Nebraska firms and agents may be attracted to the state for continuing education courses, adding jobs and income from nearby states to Nebraska's economic base (exporting services). The insurance industry requires programs for Certified Life Underwriters (CLUs) and Certified Property, Casualty, and Liability Underwriters (CPCUs).

The University could assist the insurance industry by establishing a center that would offer an expanded internship program for students and a new program for faculty and executives. Summer internships for faculty to work with the industry would be particularly beneficial to both parties. The College of Business Administration's Executive in Residence program could focus on bringing more executives from Nebraska and non-Nebraska firms to the campus.

A question may be raised regarding why the insurance industry is a likely expansion industry candidate. Why not consider the promotion of banking, food processing, or any one of a number of other industries? In fact, all of these industries may be good possibilities for development. Encouraging insurance to expand in no way diminishes the importance of other industries.

The focus here is on the insurance industry because it has a record of expansion in Nebraska. State Farm's Lincoln office manager has stated that the Lincoln office is the most cost effective of all State Farm regional offices. Nebraska has experienced insurance expansions and transfers into the state in the past few years because of the state's favorable business conditions. According to one company official, "Thirty-six years ago, when State Farm was looking around the country for a place to locate its fourth regional office, it selected Lincoln because of the availability of able and productive people to work in that office. Lincoln remains a rich source of willing and well-educated employees for our processing and service center. The Lincoln office today is the most efficient operation among State Farm's 25 regional offices in the United States and Canada. It's been that way ever since opening its doors in 1947. The reason is the quality of Lincoln area people who work for us. They know what it means to put in a full day's work and be productive members of a team. We draw a lot of people from the surrounding areas. They have good attitudes about their work and about State Farm. State Farm consistently ranks at the top of the Mayflower Group corporate attitude surveys. Of the 25 State Farm offices, our Lincoln office tops the list. One reason we're so pleased with the

work our people do, I believe, is because our people are pleased with the work they do."[1]

Furthermore, health insurance is expected to grow rapidly in the next decade. Health insurance benefit payments and life insurance benefit payments in 1980 were more than $23 billion, according to the U.S. Department of Commerce.[2] Additional gains are anticipated. The processing of these claims may be conducted more efficiently in areas such as Nebraska where office space and personnel costs are below major metropolitan areas. Nebraska has outstanding telecommunications facilities that would enable transmission of completed forms to any point in the country rapidly. Some observers believe this type of data processing will move to places such as Mexico or Jamaica. It is doubtful that offshore firms possess the skills required to process claims efficiently and effectively.

Finally, the insurance industry is experiencing growth from pension plans. Financial planning may expand. Group pension plans and individual plans such as Keough accounts and Individual Retirement Accounts (IRAs) are contributing to this growth. Although the future of Keough and IRAs is uncertain under the new federal individual income tax code, the scope for increased employment opportunities may be above average in the insurance industry. Many functions of the insurance industry could be performed in Nebraska.

EARNINGS AND EMPLOYMENT TRENDS IN SELECTED INDUSTRIES

Data in Table 2 summarize the importance of the Nebraska insurance industry and attempt to put it in perspective in relation to other industries. Employment and earnings are expressed as index numbers. These data were obtained from the U.S. Department of Commerce, Washington, D.C. Employment data are available for 1969 through 1984, while earnings data are available from 1965 to 1984. In the case of employment, the index number is set at 100.0 in 1969. In 1984, for instance, total employment in the Nebraska economy expressed as an index number was 128.7. This also can be interpreted to indicate that total employment in the Nebraska economy increased 28.7 percent.

Employment in the insurance industry increased more rapidly than all employment in the state. Total employment increased 28.7 percent from 1969 to 1984. Insurance carrier employment grew 48.5 percent, and agent employment expanded 80.8 percent over the same time span.

Some other sectors are summarized for the purpose of comparison. For instance, rail and truck transportation employment grew more slowly than insurance employment. Manufacturing and construction employment increased very slowly over the 1969 to 1984 interval. Employment by insurance firms and insurance agents constitutes an estimated 2.9 percent of total employment in Nebraska in 1986.

Earnings also are expressed in terms of index numbers. No adjustment has been made for inflation, so the index numbers in 1984 are considerably above those in 1965.

Insurance firm earnings increased from a base of 100.0 in 1965 to 584.8 in 1984. This could be interpreted as a 4.8 percent increase. The earnings of all persons in the Nebraska economy swelled from 100.0 in 1965 to 504.0 in 1984. The earnings data represent only earned income and exclude income from such sources as dividends, interest, and rent and transfer payments, including welfare and pension payments. The earnings data also indicate that employee earnings have grown more rapidly than total earnings in the Nebraska economy.

Earnings of agents and the employees of insurance carriers constitute as estimated 3.2 percent of total earned income in 1986. Earnings in the insurance industry are above average for Nebraska, so earnings from the insurance industry are higher than the industry's proportional share of employment.

Table 2
Index Numbers of Employment and Earnings
Increases for Various Nebraska Industries

	Employment		Total Earnings		Total Real Earnings (in 1967 dollars)	
	1969	1984	1965	1984	1965	1984
Total	100.0	128.7	100.0	504.0	100.0	153.2
Insurance Carriers	100.0	148.5	100.0	584.8	100.0	177.8
Insurance Agents	100.0	180.8	100.0	602.2	100.0	183.0
Services	100.0	166.0	100.0	686.8	100.0	208.8
Transportation and Public Utilities	100.0	128.3	100.0	548.6	100.0	166.7
Rail Transportation	100.0	108.9	100.0	472.1	100.0	143.5
Truck Transportation	100.0	146.8	100.0	573.7	100.0	174.4
Manufacturing	100.0	107.2	100.0	480.1	100.0	145.9
Construction	100.0	113.7	100.0	351.3	100.0	106.8

[1] *Lincoln Working Capital*, Urban Development Department, Economic Development Division, Lincoln, Nebraska
[2] U.S. Department of Commerce, *1982 U.S. Industrial Outlook*, p. 402

continued on page 6

In February 1986, the *Lincoln Journal* dubbed the Bureau of Business Research "The Silver Lining Gang" because of Bureau optimism about the direction of change in the state's economy in the subsequent six months. At that time, the Bureau of Business Research's index of leading economic indicators for Nebraska was pointing up. This note of optimism was greeted with skepticism, scoffing, and comments that academics could never get anything right.

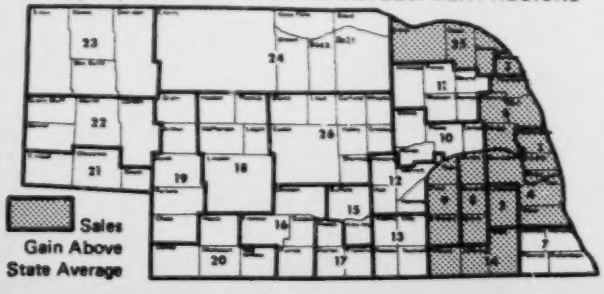
July 1986 employment data are now in, and I am pleased to report that the leading economic indicators were *correct in predicting an increase in economic activity in Nebraska.* As the data in Table A indicate, employment in Nebraska in six of the seven months from January to July of 1986 was above the level for the same month in 1985. Income data will be released by the Bureau of Economic Analysis, Washington, D.C. within a few months. These data also likely will confirm what the employment numbers are showing. In June 1986, there were 10,000 more persons working in Nebraska than in June 1985, approximately 1,000 more working in Omaha, and almost 600 more working in Lincoln than a year ago. Outside of Lincoln and Omaha, employment was also up. July 1986 employment statewide was almost equal to July 1985. A drop in Omaha employment in July was nearly offset by gains outside of Omaha. Some persons are undoubtedly doing jobs they would like to trade for other jobs, but there has always been a shortage of chief executive positions in Nebraska and nationwide. All the predictions about the bad farm economy spreading across Nebraska like a wild prairie fire now seem unduly alarmist. These predictions also may have been premature.

The Bureau of Business Research's series of leading indicators for Nebraska *measure real economic activity.* They are based on such factors as construction activity, commodity prices, employment levels, and the number of new unemployment claims. It is also important to remember that economic activity may move up, while tax collections may not move or may go down. The numerous changes in our tax laws in the past few years may have altered the longstanding relationship between a rising economic base and rising tax collections.

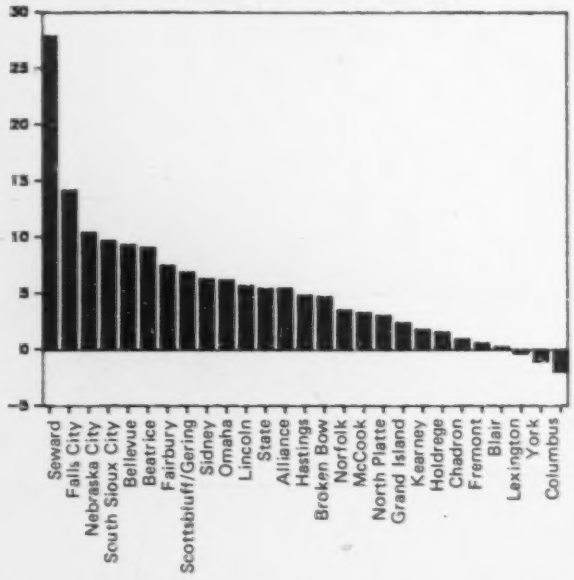
The Bureau prepares and reports economic statistics, the good news and the bad news. The bad news is that the index has plateaued for three consecutive months. I interpret this as an indication there will be very little employment and income growth over the next six to twelve months. Let me underscore, however, that this is a *tentative* conclusion which is being altered constantly with the arrival of additional data and revised data. I am less confident about the next six to nine months than I was in January 1986.

DONALD E. PURSELL

1986 YEAR TO DATE AS PERCENT OF 1985 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



City Business Index
Percent Change June 1985 to June 1986



June 1986	CITY BUSINESS INDICATORS		
	Percent of Same Month a Year Ago		
The State and Its Trading Centers	Employment[1]	Building Activity[2]	Power Consumption[3]
The State	102.1	100.8	103.4
Alliance	99.4	158.1	102.6
Beatrice	101.6	112.6	107.0
Bellevue	101.4	313.7	85.6*
Blair	101.4	31.6	96.9*
Broken Bow	102.3	146.0	96.3
Chadron	104.1	32.5	93.2
Columbus	102.5	38.1	104.8
Fairbury	102.9	100.1	115.2
Falls City	102.3	451.5	130.7
Fremont	103.5	42.0	68.4*
Grand Island	103.0	84.1	93.3
Hastings	102.4	97.5	160.3
Holdrege	101.7	80.8	92.7
Kearney	103.7	78.9	91.1
Lexington	101.4	68.1	99.1
Lincoln	101.4	92.4	97.1
McCook	103.0	85.8	97.9
Nebraska City	102.0	177.8	108.4
Norfolk	102.8	51.4	141.6
North Platte	101.6	70.1	98.9
Omaha	101.4	105.9	103.3
Scottsbluff/Gering	102.8	203.6	114.0
Seward	102.0	97.5	105.2
Sidney	102.0	334.6	112.4
So. Sioux City	102.6	240.4	101.7
York	101.8	24.0	95.1

[1] As a proxy for city employment, total employment for the county in which a city is located is used.

[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

Table A
Employment in Nebraska, Omaha MSA, Lincoln MSA, and Nonmetro Nebraska, 1985 and 1986

	NEBRASKA		OMAHA MSA		LINCOLN MSA		NONMETRO NEBRASKA	
Year and Month	Total Employment	Total Unemployment	Total Employment	Total Unemployment	Total Employment	Total Unemployment	Total Employment	Total Unemployment
1985:1	740,807	46,257	289,021	18,089	110,217	4,504	383,865	27,682
1985:2	738,393	48,375	288,770	18,594	110,158	4,531	381,736	28,933
1985:3	751,327	48,028	289,986	18,178	110,877	4,375	392,926	29,045
1985:4	766,682	42,615	292,152	17,191	111,411	3,957	406,125	24,927
1985:5	780,100	42,557	296,312	18,668	113,008	3,977	414,437	23,439
1985:6	786,602	43,570	298,756	18,872	111,176	4,007	420,595	24,177
1985:7	788,444	43,789	299,638	18,698	111,677	4,002	421,282	24,644
1985:8	779,122	40,124	298,606	17,286	111,690	3,655	418,036	22,285
1985:9	772,679	37,937	298,332	16,755	112,817	3,565	410,142	20,580
1985:10	779,835	38,687	300,784	16,744	113,597	3,733	416,285	22,487
1985:11	770,834	47,887	298,460	18,909	114,556	4,629	401,755	27,510
1985:12	761,176	48,174	295,425	19,049	114,139	4,556	394,202	27,912
1986:1	740,452	55,865	290,837	21,518	110,782	4,990	381,167	33,164
1986:2	744,371	56,164	292,087	21,491	111,242	4,995	383,579	33,312
1986:3	761,845	53,488	294,389	20,865	112,062	4,662	398,168	31,712
1986:4	786,047	43,275	297,949	17,616	114,370	4,039	416,923	25,104
1986:5	800,832	38,897	300,209	15,820	115,854	3,527	428,280	22,653
1986:6	802,399	38,122	302,260	16,717	112,702	3,547	431,417	21,127
1986:7	794,877	37,048	298,155	16,619	112,190	3,355	428,160	20,541
1986:8	777,898	31,893	293,156	14,042	110,526	3,095	417,174	17,302

Source: Nebraska Department of Labor

Note: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

CHANGE FROM PREVIOUS YEAR

June 1986	Current Month as Percent of Same Month Previous Year		1986 to Date as percent of 1985 to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	105.4	103.8	103.4	104.5
Construction	105.1	106.3	98.2	106.7
Manufacturing	97.8	96.0	95.9	96.7
Distributive	106.3	105.7	104.3	106.6
Government	107.8	106.5	106.8	106.4
Physical Volume	na	na	na	na
Agricultural	na	na	na	na
Nonagricultural	103.1	102.3	100.9	102.5
Construction	101.9	103.1	95.5	103.9
Manufacturing	99.9	98.5	97.6	98.4
Distributive	104.5	103.9	101.9	104.1
Government	103.3	102.1	103.3	102.9

CHANGE FROM 1967

June 1986	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	na	na
Agricultural	na	na
Nonagricultural	386.6	473.8
Construction	308.8	499.5
Manufacturing	373.9	307.0
Distributive	397.2	562.1
Government	408.5	483.2
Physical Volume	na	na
Agricultural	na	na
Nonagricultural	128.3	153.4
Construction	83.7	135.4
Manufacturing	154.3	123.3
Distributive	121.1	171.4
Government	147.3	155.4

Compiled from data provided by Nebraska Department of Revenue.

NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number and City June 1986	City Sales	Sales in Region	
	June 1986 as percent of June 1985	June 1986 as percent of June 1985	1986 to Date as percent of 1985 to Date
The State	108.6	109.1	105.0
1 Omaha	110.3	110.4	108.2
Bellevue	105.9		
Blair	110.2		
2 Lincoln	110.7	111.5	107.0
3 So. Sioux City	108.1	109.6	107.0
4 Nebraska City	113.7	118.1	106.7
6 Fremont	105.6	107.0	107.0
West Point	97.9		
7 Falls City	111.7	114.4	105.0
8 Seward	158.7	122.5	110.7
9 York	109.6	113.2	107.6
10 Columbus	102.1	105.9	104.7
11 Norfolk	111.0	111.1	103.7
Wayne	121.9		
12 Grand Island	103.0	103.7	101.5
13 Hastings	107.3	110.7	104.2
14 Beatrice	116.0	117.0	106.1
Fairbury	112.3		
15 Kearney	101.4	106.6	104.2
16 Lexington	100.4	102.6	97.9
17 Holdrege	102.7	107.1	98.8
18 North Platte	107.7	106.8	103.4
19 Ogallala	101.2	99.9	95.2
20 McCook	104.7	101.6	101.8
21 Sidney	97.5	92.3	92.8
Kimball	82.0		
22 Scottsbluff/Gering	103.4	100.0	100.9
23 Alliance	106.5	102.0	98.1
Chadron	108.8		
24 O'Neill	106.2	108.9	102.2
25 Hartington	99.7	113.3	108.4
26 Broken Bow	103.0	105.3	101.5

continued from page 4

THE EXPORT BASE

Part of the insurance industry generates exports. For example, when a Nebraska insurance company sells and/or services a policy held by non-Nebraskans, the company is exporting a service to other parts of the country for which it receives a fee (just as beef, corn, wheat, center pivots, and Omaha steaks are export products). Exports are important because they expand the economic base. Persons outside Nebraska purchase insurance, beef, wheat, or corn, thereby creating employment and income opportunities for Nebraskans. This export activity generates additional jobs in trade and business services, i.e., firms that serve the insurance industry or the industry's employees. Export products have an entirely different role in the economy than products sold only to Nebraskans.

An expansion of an existing firm or a movement of a new firm promotes economic development not only for those who join the expanding or new firm, but for others who remain in their positions. Consider the following situation in which the firm moves into the community. The new or expanding AB firm hires clerical and data processing personnel. These personnel receive a wage increase of 30.0 percent, for example, because of new duties. Their incomes have expanded and their families are able to spend more time together. Personnel not hired by the new AB firm also benefit, because AB's expansion or entry leaves vacancies that must be filled. If they are filled internally, pay increases and promotions result. The wage structure and the income structure of the entire community are boosted upward.

ECONOMIC DEVELOPMENT FUNCTIONS OF THE STATE

When considering economic development, it is important to keep in mind actions the state can undertake that will promote economic development. The insurance industry, telecommunications, banking and finance, and other industries are affected by policies and regulations--these actions are largely under the control of the governor and the legislature. The state has an obligation to protect the consumer and to create a climate for economic expansion.

It is also important that the state maintains and develops its infrastructure if it is to be competitive and attractive compared to other states. Nebraska's infrastructure includes its roads, waterways, schools, hospitals, and related systems which are essential to the efficient working of the local and regional economy. Maintaining an appropriate and efficient education system is largely the function of state and local officials. Executives are not likely to select or remain in Nebraska if their children must be sent out of state for an education.

SUGGESTIONS?

Readers are invited to submit their comments and suggestions for Nebraska's economic development. In order to publish as many as possible, preference will given to brief and succinct statements. The maximum acceptable length is two double-spaced typewritten pages. All suggestions must be signed and telephone contact numbers provided.

DONALD E. PURSELL

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